

AD-A166 598

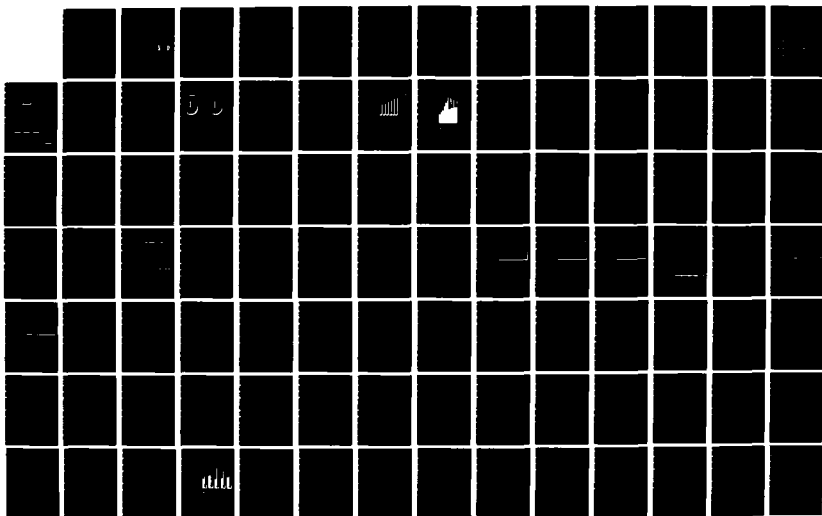
MANAGEMENT REVIEW: PROGRESS AND CHALLENGES AT THE
DEFENSE LOGISTICS AGENCY(U) GENERAL ACCOUNTING OFFICE
WASHINGTON DC NATIONAL SECURITY AND. APR 86
GAO/NSIAD-86-64

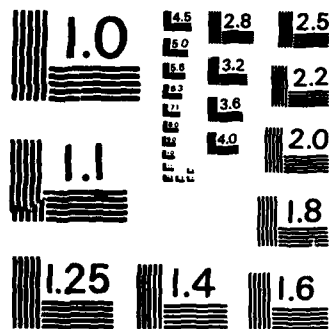
1/2

UNCLASSIFIED

F/G 15/5

NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

GAO

United States General Accounting Office
Report to the Secretary of Defense



April 1986

MANAGEMENT REVIEW

Progress and Challenges at the Defense Logistics Agency

AD-A166 598

DTIC FILE COPY



DTIC
ELECTE
APR 16 1986
S D

This document has been approved
for public release and sale; its
distribution is unlimited.



United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-221701

April 7, 1986

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

This report discusses the results of our review of management processes involved in planning, directing, organizing, and controlling the operations of the Defense Logistics Agency (DLA). During our review, DLA management was responsive to important issues, problems, and suggestions made by our staff. In this report we identify additional opportunities for the Department of Defense (DOD) and DLA to strengthen the Agency's management processes and overall effectiveness.

This report contains recommendations to you and to the DLA Director in chapters 2, 3, and 5. As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are also sending copies of this report to the Chairmen, House and Senate Committees on Armed Services; the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and to the Director, DLA.

Sincerely yours,

Charles A. Bowsher
Comptroller General
of the United States



Accession For	
NTIS	CRA&I
DTIC	TAB
Unannounced	
Justification	
By	
Distribution /	
Availability Codes	
Dist	Avail and/or Special
A-1	

Executive Summary

The Defense Logistics Agency (DLA) procures, stocks, and issues supplies vital to the military services. It also performs contract administration and other services. This report discusses the effectiveness of management systems that support the capability of the Director, DLA, to plan, direct, organize, control, and evaluate the accomplishment of DLA's varied missions.

GAO, assisted by its panel of defense logistics experts, reviewed DLA's planning, directing, and other internal management control processes.

Background

DLA manages over two million supply items, procures supplies costing billions of dollars each year (\$15 billion in fiscal year 1984), maintains an inventory valued at over \$10 billion, and administers over \$186 billion in government contracts. In addition to food, fuels, clothing, and other basic needs of our military forces, DLA manages many weapon system spare parts. (See pp. 10 through 16.)

Management of this multimission organization is a formidable task. The scope and size of DLA's activities make the Agency highly dependent on automation for financial and other management systems.

Results in Brief

During this review, GAO and DLA identified certain problems in financial management, automated systems, and other areas. DLA has been responsive in addressing these problems and has initiated several actions to improve its management processes. GAO's panel of logistics experts provided additional comments on DLA management issues for consideration by the Department of Defense (DOD). (See pp. 96 through 102.)

Principal Findings

Improved Automated Systems Critical to Missions

Many of DLA's automated systems are in need of modernization. Improvements, for example, in supply support, contract administration, and financial management depend on upgraded information systems. DLA plans to spend over \$700 million in modernizing its automated systems. (See pp. 31 through 33.) At the start of its review, GAO found that DLA did not have an effective plan for acquiring and managing information resources. DLA has started revising automated information systems policies and regulations and has initiated organizational and managerial

changes to improve planning for and cost control over automated systems. (See pp. 63 through 65 and pp. 90 through 92.)

Improved Supply and Contract Administration Management Needed

Prior audit reports found control weaknesses and accounting data reporting errors which have reduced the effectiveness of DLA's supply support and contract administration activities. (See pp. 68 through 82.) Supply centers, for example, did not have adequate assurance that their records of "intransit" material (purchased and paid for, but not delivered), obligations for supplies procured, and inventory records were accurate. Contributing to the supply support and contract administration problems were such factors as

- workforce turnover or shortages of trained personnel,
- reliance on labor-intensive accounting processes,
- insufficient levels of records automation or contract forms standardization,
- failure to follow existing procedures and policies, and
- insufficient management emphasis and visibility.

DLA has taken steps to modernize its automated information systems, establish management objectives or task forces to address problems in accurately recording and effectively controlling purchased materials, and to review progress as part of the Director's periodic management reviews.

Productivity Management Still a Challenge

DLA has a comprehensive productivity improvement program, including development and implementation of objective measures of operational performance. The Agency's top management also supports employee groups involved in improving performance. Productivity measurement standards now cover the majority of DLA's personnel. However, opportunities exist to improve data collection and to use more measures of quality, timeliness, and efficiency of its operational performance. (See pp. 45 through 58.)

Productivity rose steadily during 1980-1983, but declined during 1984. Agency officials told GAO that increased emphasis on assuring reasonable prices through procurement initiatives and other factors affected DLA's overall productivity trend in 1984. DLA's 4-year productivity growth rate is slightly higher than the trend necessary to achieve the presidential goal for improvement by 1992.

Many of DLA's other operational performance measures also showed improvement during 1980-1984. These included increased procurement competition and improvements in certain other supply indicators. (See pp. 50 through pp. 55.)

Continued Attention Needed to Supporting Weapon Systems

DLA's Weapon System Support Program provides intensified management for almost 700,000 items used on over 900 weapon systems. Assuring that the Program is conducted in an economical, as well as an effective manner, depends, in part, on system and item priority data supplied by the military services. (See pp. 43 through 45.) GAO found that DOD and the military services view DLA's support as effective; however, DLA needs more data from the military services on system and item priorities. (See pp. 42 through 44).

DLA and the military services are working to close the data gap. Because of the rapid growth in this critical program and the close interplay of DLA and the military services needed to support DLA's program management, the Program warrants DOD's continued scrutiny.

Recommendations

GAO makes recommendations to DOD and DLA, intended to support their continued management initiatives and to improve DLA's management effectiveness.

The recommendations address the three areas listed below.

- **Planning.** Improve plans for supporting wartime operations, emphasize staff-needs planning, and improve information for budget formulation. (See ch. 2, pp. 30, 35, and 37.)
- **Directing operations.** Oversee and enhance weapon system support, emphasize work quality measures, and improve productivity. (See ch. 3, pp. 44 and 58.)
- **Management control.** Emphasize the quality of accounting information and controls, automate contract information, control materials in transit, minimize overaged unliquidated obligations, improve inventory records accuracy, improve the program for deletion of unneeded inventory items, and increase central management control and visibility over ADP operations and costs. (See ch. 5, pp. 75, 81, 89, and 92.)

Agency Comments

DOD concurred with GAO's findings and recommendations. Its response noted numerous actions, taken and planned, to address the issues discussed in GAO's report, which include (1) improved planning for and control over DLA's automated information systems, (2) increased efforts to identify materials control problems and reduce overaged unliquidated obligations, and (3) better management data for the supply support for weapon systems. GAO considers DOD's reply to be responsive to the basic concerns outlined in its report. GAO will monitor DOD and DLA's implementation of corrective actions.

Contents

Executive Summary		2
--------------------------	--	----------

Chapter 1		10
Introduction		
	Organization of Headquarters and Field Activities	10
	Supply Support	13
	Contract Administration	14
	Other Logistics and Support Programs and Services	16
	Resources for Operations and Stock Fund	17
	Objectives, Scope, and Methodology	19

Chapter 2		24
Planning and Related Functions		
	Policymaking	24
	Strategic Planning Process Developed	24
	Conclusions	27
	War and Emergency Preparedness	27
	Conclusions	30
	Recommendations	30
	Agency Comments and Our Evaluation	30
	Plan for Automated Information Resources	31
	Conclusion	33
	Staff Planning Receives Added Emphasis	33
	Conclusions	34
	Recommendation	35
	Agency Comments and Our Evaluation	35
	Budget Formulation	35
	Conclusions	37
	Recommendations	37
	Agency Comments and Our Evaluation	38

Chapter 3		40
Direction of Operations		
	Management Influences and Environment	40
	Intensified Management of Weapon Systems Parts	41
	Conclusions	44
	Recommendations	44
	Agency Comments and Our Evaluation	45
	DLA's Productivity Management Program	45
	Conclusions	57
	Recommendations	58
	Agency Comments and Our Evaluation	58

Contents

	Workforce Excellence and Personnel Concerns	58
	Conclusions	60
<hr/>		
Chapter 4		62
Organization	Managers' Roles	62
	Direction of the Agency's Information Resources	63
	Conclusions	65
	Internal Audit Capability	65
	Conclusions and DOD Position	67
<hr/>		
Chapter 5		68
Management Controls	Accounting Inaccuracies and Related Control Problems	68
	Conclusions	75
	Recommendations	75
	Agency Comments and Our Evaluation	76
	Financial and Other Management Controls Over Materials	77
	Conclusions	81
	Recommendations	81
	Agency Comments and Our Evaluation	82
	Controls Over Parts Entering the Supply System and Deletions of Unneeded Items	83
	Conclusions	89
	Recommendations	89
	Agency Comments and Our Evaluation	90
	Controls on ADP Costs and Measurement of Computer Performance	90
	Conclusions	91
	Recommendation	92
	Agency Comments and Our Evaluation	92
	Audit Follow-Up Procedures and Development of Audit Evaluation Trend Data	92
	Conclusions	93
	Recommendations	93
	Agency Comments and Our Evaluation	93
<hr/>		
Appendixes	Appendix I: DOD Organizations Visited by GAO in DLA Management Review	94
	Appendix II: Comments by GAO's Expert Panel on Issues Affecting DLA Management	96
	Appendix III: Comments From the Department of Defense	102

Tables

Table 3.1: Growth in Weapon Systems Support	42
Table 3.2: DLA's Weapon Systems Support (By Service) as of September 30, 1984	42
Table 5.1: Parts Control Program—Costs/Results	85
Table 5.2: Defense Inactive Item Program: Deleted Items	87

Figures

Figure 1.1: DLA Headquarters Organization	11
Figure 1.2: DLA Primary Level Field Activities	12
Figure 1.3: Contract Administration Fiscal Year 1984	15
Figure 1.4: Appropriations Fy 1979-1984	18
Figure 1.5: Contract Authority Stock Fund Apportionments, Allocations, and Obligations Fy 1979-1984	19
Figure 2.1: DLA Headquarters Management by Objectives Program	27
Figure 3.1 DLA Productivity Trend	48
Figure 3.2: DLA Productivity Trend: Supply Centers Total	49
Figure 3.3: DLA Productivity Trend: Procurement	50
Figure 3.4: DLA Productivity Trend: Depots Total	51
Figure 3.5: DLA Productivity Trend: DCASR Total	53
Figure 3.6: DLA Productivity Trend: Pricing & Financial Analysis	54
Figure 5.1: Parts Control Program Results Fiscal Years 1980-1984	85

Abbreviations

ADP	automatic data processing
DCAS	Defense Contract Administration Services
DCASR	Defense Contract Administration Services Region
DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office
JCS	Joint Chiefs of Staff
JLC	Joint Logistics Commanders
MBO	Management By Objectives
MILSCAP	Military Standard Contract Administration Procedures
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
ULOs	unliquidated obligations

Introduction

The Defense Logistics Agency (DLA), created in 1961, is charged with providing effective and economical support to the U.S. military services and other agencies for assigned supply items or technical and logistics services. DLA's primary activities include (1) procuring, stocking, and issuing materiel to support the military forces, (2) administering and making payments on government contracts, and (3) providing other worldwide support services, including property reuse and disposal, cataloging of supply items, and management of defense industrial property.

DLA's annual appropriations for personnel and other operating costs amount to \$1.7 billion. The Agency procures (about \$15 billion in 1984) fuels, food, clothing, medical, electronics, construction, industrial, and other consumable supplies for distribution to the military services and other customers. DLA processes over 30 million requisitions yearly from these customers. DLA manages 2.4 million supply items and maintains an inventory valued at over \$10 billion, disburses over \$50 billion yearly, administers \$186 billion in government contracts, and arranges for reuse, donation, or disposal of about \$5 billion (acquisition value) yearly in government property.

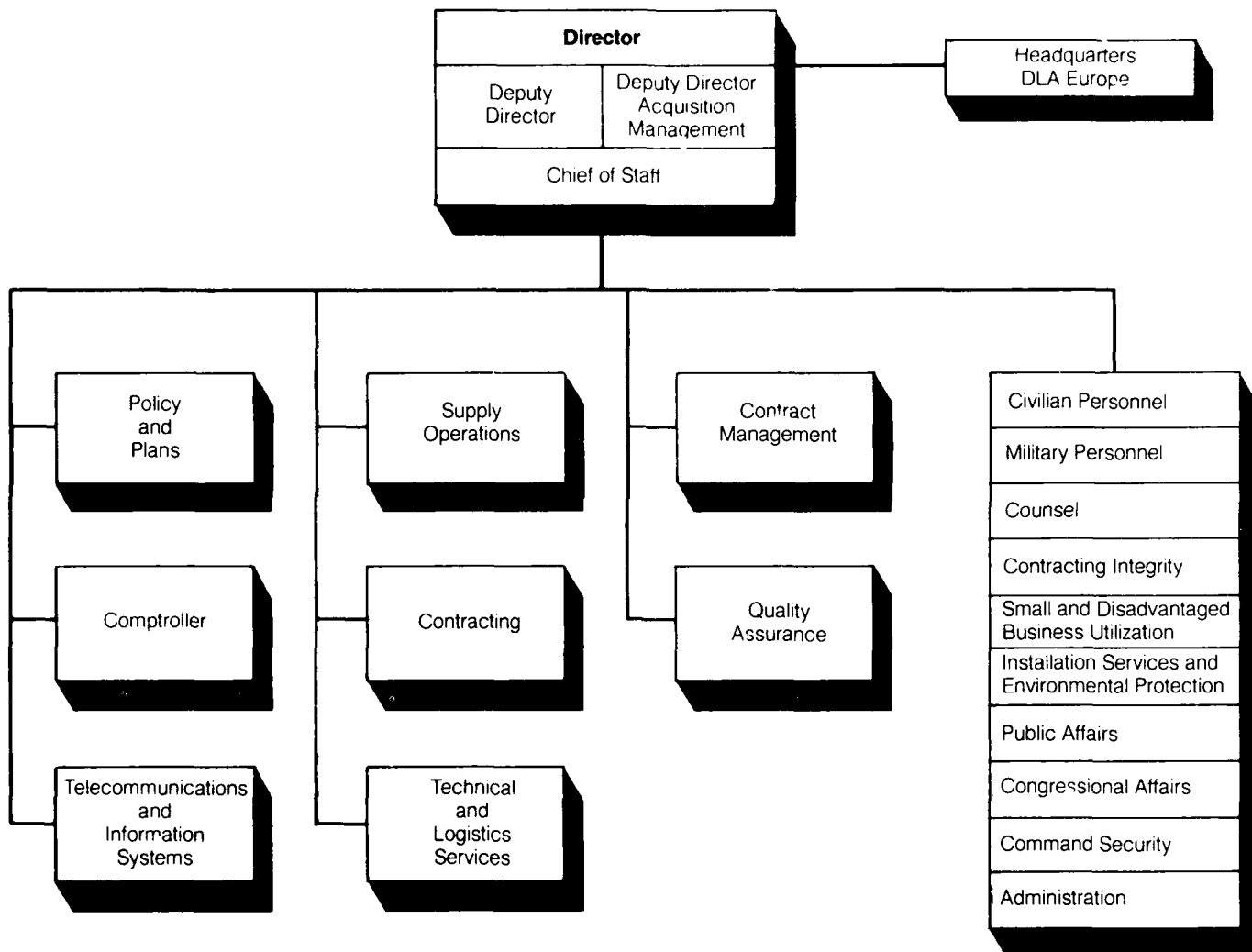
The DLA Director, a military officer at the rank of Lieutenant General or Vice Admiral, reports to the Assistant Secretary of Defense for Acquisition and Logistics and coordinates the Agency's activities with other Department of Defense (DOD) organizations, including the Joint Chiefs of Staff (JCS). The Director serves about 3 years and the military services staff this position on a rotating basis.

DLA operations are conducted through 25 major field organizations. Worldwide, as of September 30, 1984, DLA's 48,000 civilian and 1,000 military employees were stationed at more than 300 locations.

Organization of Headquarters and Field Activities

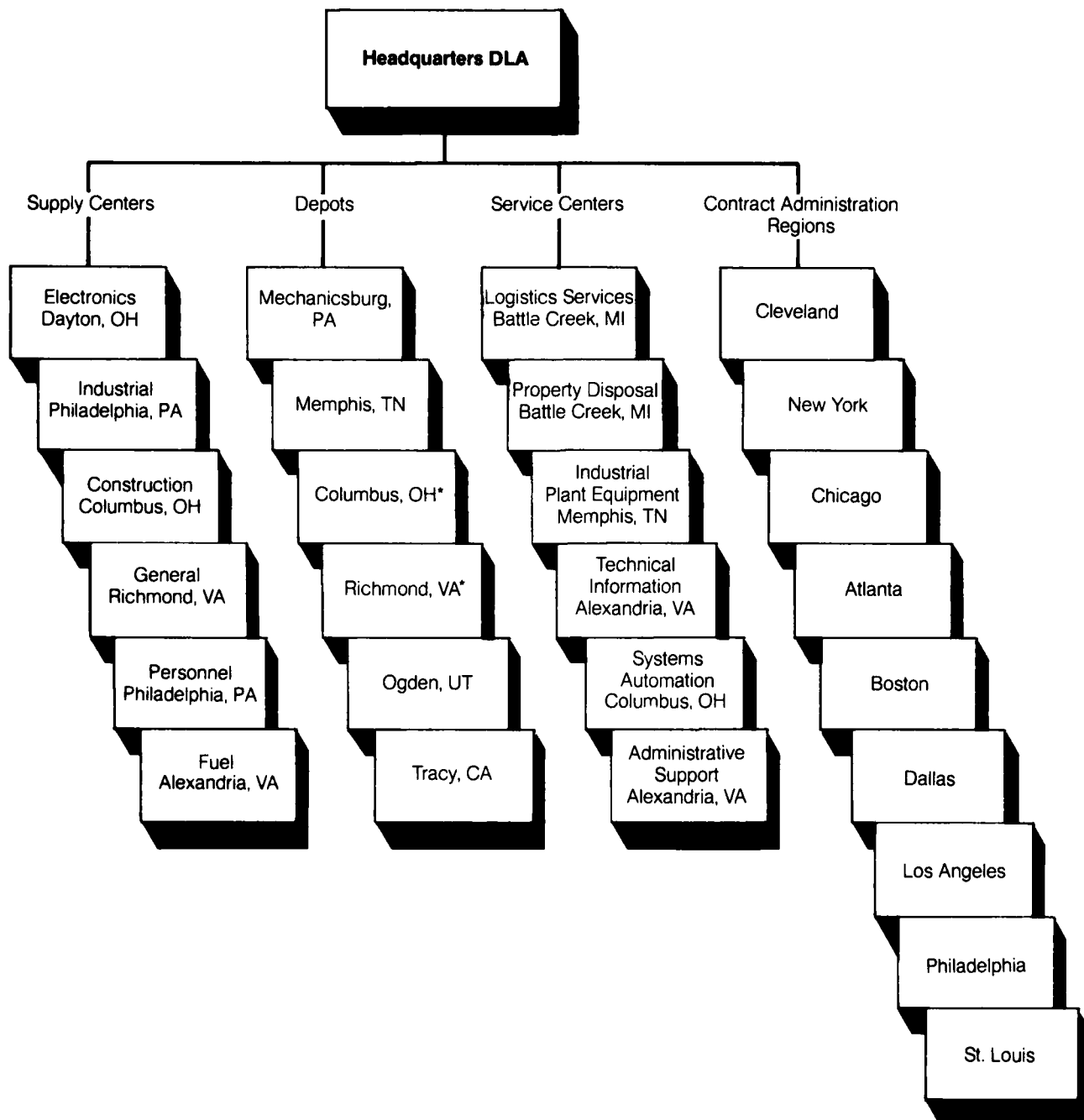
DLA's headquarters is located in Alexandria, Virginia. It is composed of 18 Principal Staff Elements which have functional oversight and policy and planning responsibilities (e.g., contracting, supply operations, quality assurance, Comptroller). See figure 1.1.

Figure 1.1: DLA Headquarters Organization



DLA has an extensive network of Primary Level Field Activities, composed of supply centers, depots, service centers, and contract administration regions. The primary activities also have a large number of subordinate organizations. Figure 1.2 shows Primary Level Field Activities, and two depots which are collocated with and subordinate to supply centers.

Figure 1.2: DLA Primary Level Field Activities



*Collocated with supply centers.

Supply Support

Generally, DLA manages consumable¹ supply items, including food, clothing, medical and general supplies, and spare parts,² while repairable items and some items peculiar to weapon systems are managed by the military services. Many items DLA manages are spare parts for weapon systems. In fiscal year 1984, DLA reported that it procured about \$15 billion in supplies.

DLA's supply support functions include computing consolidated material requirements, procuring, storing, and distributing supplies. These supply functions are carried out by DLA supply centers and depots. In addition to the DLA-managed depots, some military service-managed and some contractor-operated depots are used to store and distribute DLA-managed items. As of September 30, 1984, the supply centers and depots employed about 22,000 people or about 46 percent of DLA's workforce.

The military services determine their requirements for supplies and materials, including those supply items managed by DLA. The DLA supply centers compute the consolidated requirements for DLA-managed items and obtain the supplies from commercial sources (except for limited in-house clothing production) to meet the services' projected needs. DLA distributes these items to customers throughout the world when requisitioned. The supply centers "sell" to the customers at the purchase price plus a surcharge to cover transportation costs, inventory losses, and inflation.

DLA buys and manages a wide-range and large volume of supply items which are generally used by more than one military service. In the 5 years ended September 1984, the number of supply items DLA managed increased about 22 percent, to over 2.4 million. At September 30, 1984, DLA's supply inventories were valued at about \$10.5 billion. The Agency's inventory investment has increased 45 percent since the end of fiscal year 1980.

During fiscal year 1984, the supply centers received about 30.7 million supply requisitions. These requisitions are processed by the DOD Automated Digital Network to the DLA supply center managing the item. The

¹Consumable items are those normally expended or used beyond recovery in the use for which they were designed or intended.

²Spare parts managed by DLA are generally parts that wear out and must be replaced rather than repaired.

center's computer automatically checks the inventory records and transmits the order to the supply depot holding the item and serving the geographic area where the user is located. The depot then processes the item for shipment. DLA had sales of \$15.4 billion in fiscal year 1984.

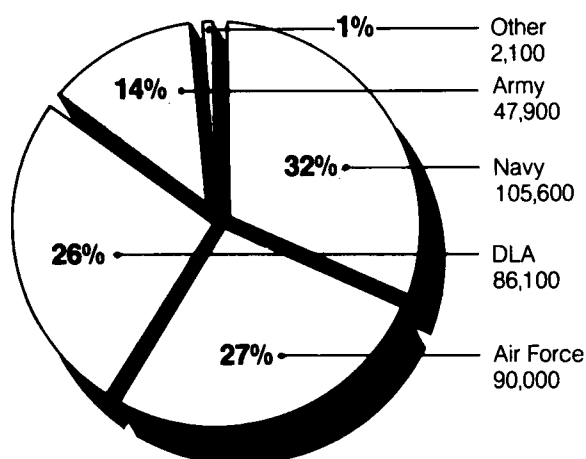
Contract Administration

Administration of a large portion of defense contracts is carried out by the Defense Contract Administration Services (DCAS). These contract administration services are intended to help ensure that goods and services of satisfactory quality are delivered when and where needed, at the contracted prices. Almost 17,000 people or over one-third of DLA's workforce is engaged in the contract administration function. At the end of fiscal year 1984, DCAS was administering about 332,000 prime contracts valued at about \$186 billion. In the last 4 years, the total number of contracts administered by DCAS has grown by 26 percent. During fiscal year 1984, DCAS made payments of over \$41 billion to contractors.

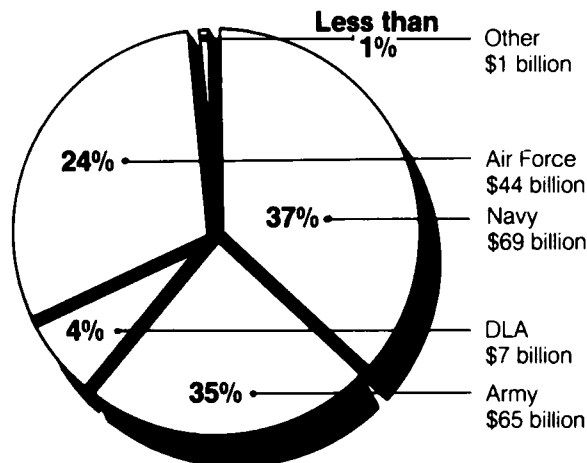
As shown in figure 1.3, 26 percent of the DCAS administered prime contracts were contracts awarded by DLA and made up 4 percent of the contract dollars. Although DCAS administers a large number of defense contracts, many are also administered by the military services. The services administer, for example, high-dollar-value prime contracts on major weapon systems.

Figure 1.3: Contract Administration Fiscal Year 1984

Number of Prime Contracts
331,700



Dollar Value of Contracts
\$186 billion



DCAS activities are carried out through nine Defense Contract Administration Services Regions (DCASRs). These DCASRs are subdivided into 38 management areas and 47 plant representative offices. The management area offices administer contracts within given geographical areas, while plant representative offices administer contracts at specific contractor plants.

The DCAS workforce is predominantly civilian. It includes specialists in such areas as accounting, law, pricing, insurance, contract management, quality assurance, engineering, and industrial operations. DCAS has three functional areas of responsibility.

- Contract management involves a variety of activities, including financial services, administration of government property, production surveillance, engineering, preaward surveys, and industrial labor relations.
- Quality assurance services help assure that contractors furnish supplies and equipment to the government that meet contract requirements.
- Systems and financial management services include accounting for and reporting on contracts administered, paying contractors for the materials and services produced, and operating the automated data systems used to support DCAS operations.

Other Logistics and Support Programs and Services

DLA's service centers have operational responsibility for various other logistics and support programs and services. DLA manages, through four of its six service centers, programs and activities such as the federal catalog system, the defense property disposal program, industrial plant equipment program, and technical information services. Two other service centers provide data processing and administrative support services.

Major functions of the six service centers are discussed below.

- Defense Logistics Service Center assigns numbers to supply items and keeps track of item descriptions and other identification data for items in the Federal Catalog. As of September 30, 1984, the Catalog contained about 4.3 million active items. The Catalog data is used by its customers to design, purchase, transport, stock, store, issue, and transfer government supplies.
- Defense Reutilization and Marketing Service is responsible for the management of personal property reutilization and disposal operations for DOD. Annually, the Service processes through its reutilization, donation, or sales programs, about \$5 billion (acquisition value) in equipment, and supplies.
- Defense Industrial Plant Equipment Center manages the industrial plant equipment which includes machine tools and general plant equipment. The Center maintains records on DOD-owned industrial plant equipment with an acquisition cost of \$3,000 or more. At the end of fiscal year 1984, DLA reported that it had records on 139,000 pieces of equipment that cost \$3.8 billion.
- Defense Technical Information Center maintains in its central repository 1.5 million research and development reports produced by DOD organizations and their contractors. During fiscal year 1984, the Center processed 392,000 requests for technical reports.
- DLA Systems Automation Center functions as the Agency's central design activity for developing, programming, testing, installing, and maintaining automatic data processing (ADP) systems used by DLA activities.
- DLA Administrative Support Center provides general administrative support to all DLA and other designated activities in the national capital area. The Center, for example, provided disbursing functions for the payment of about \$12.8 billion in fiscal year 1984.

Resources for Operations and Stock Fund

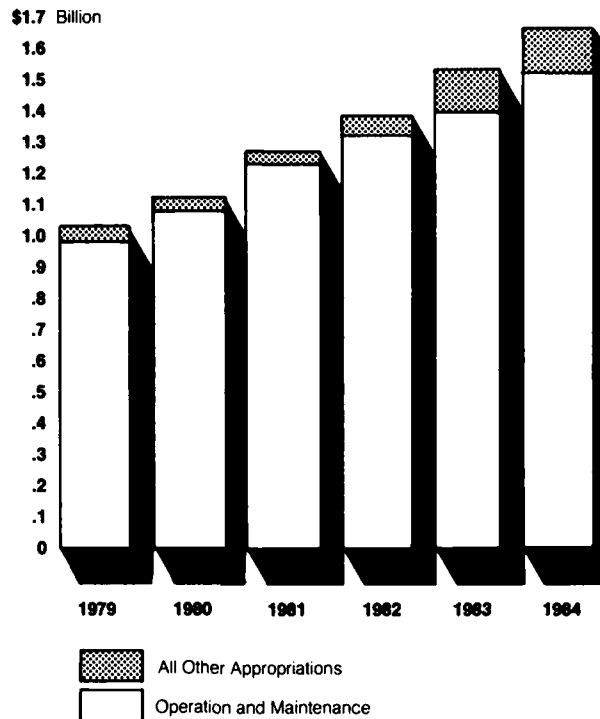
DLA's operating expenses are funded primarily through direct appropriations. A stock fund³ is used to procure supplies for resale to customers and a much smaller industrial fund⁴ is used to finance a portion of DLA's clothing and textiles operations.

In fiscal year 1984, DLA received direct funding of about \$1.7 billion, in seven appropriations. The largest appropriation—operation and maintenance—amounted to \$1.5 billion in fiscal year 1984, with about 75 percent of that for DLA's civilian payroll. As noted in figure 1.4, DLA direct appropriations have increased from about \$1 billion in 1979 to about \$1.7 billion in 1984, or 70 percent over the 5-year period.

³Stock funds are revolving funds where income generated through sales of material inventories is used to replenish those inventories.

⁴Industrial funds are revolving funds intended to operate on a break-even basis by having income (sales) sufficient to cover the cost of producing the goods or services sold.

Figure 1.4: Appropriations Fy 1979-1984



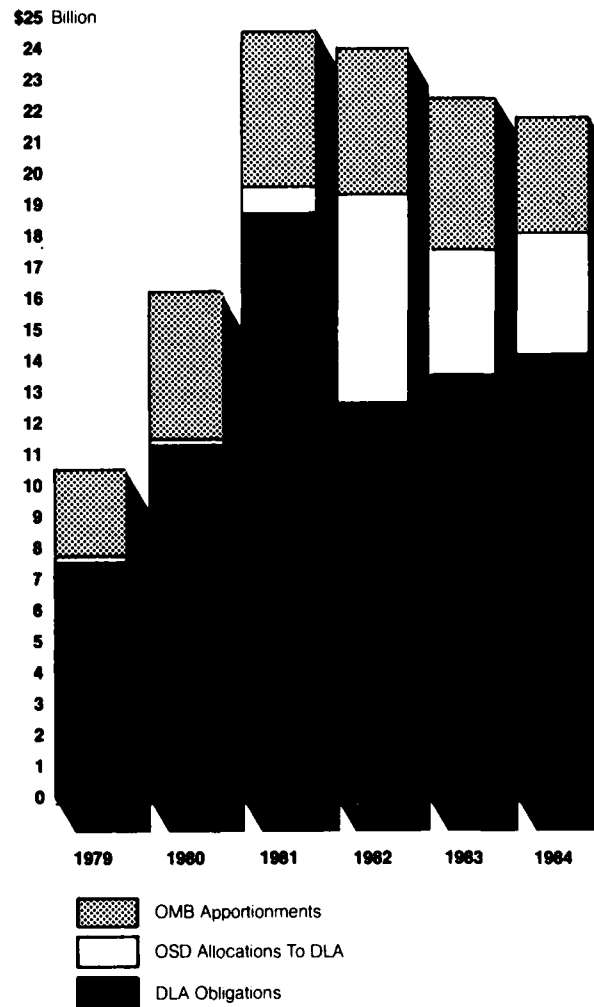
Other Appropriations

- Procurement
- Family Housing, Construction
- Family Housing, Operation And Maintenance
- Military Construction
- Research, Development, Test And Evaluation
- Environmental Restoration (FY 1984 only)

Note: DLA appropriations are part of the overall appropriation total for Defense Agencies

The amount of contract authority, apportioned by the Office of Management and Budget (OMB) for defense stock fund operations, is larger than DLA's appropriated funds. As allocated by the Office of the Secretary of Defense (OSD), such contract authority provides DLA with obligational authority for procurement of supplies, in anticipation of requisitions from the military services and other agencies. As shown in figure 1.5, stock fund obligations have increased from about \$7.5 billion in fiscal year 1979 to about \$14 billion in fiscal year 1984, or about 87 percent.

**Figure 1.5: Contract Authority Stock
Fund Apportionments, Allocations, and
Obligations Fy 1979-1984**



Objectives, Scope, and Methodology

The purpose of this review was to: (1) examine DLA's mission, resources, organization, policies, management objectives, and the various mechanisms used to direct, control, and evaluate its operations, (2) identify problems DLA has experienced in carrying out some of its major activities, (3) determine how DLA has responded to these challenges, and (4) recommend measures to strengthen DLA's management processes.

During this review, we concentrated on DLA's management functions of planning, directing, organizing, and controlling its operations, considering its mission and goals, its organizational position within DOD, and the various constraints and influences on DLA decisionmaking. Our review was broad in scope and included some analyses in DLA's major mission areas which provided an insight into areas of concern. However, it was not an in-depth analysis of any one program and did not cover all DLA functions or responsibilities.

Because more than 80 percent of DLA's personnel are performing supply and contract administration functions, and because the supply and contract administration organizations disburse or arrange for disbursing over \$50 billion annually in government funds, we directed our review principally to these two major areas. We also did some work at DLA service centers. Our review was conducted between February 1984 and February 1985 at DLA headquarters and field organizations, OSD, and military service organizations. See appendix I for a list of the organizations we visited.

Our review included examining how DLA manages some of its major programs and activities (e.g., weapon systems support, inactive items, parts control), as well as examining the management processes in the following functional areas: financial and information resources management, personnel, productivity, procurement, policy and planning, and audits and evaluations.

We obtained advice and assistance in our review from a panel of previous DLA directors and former DOD senior officials. (See app. II.) The panel members helped to identify management and functional areas needing attention, provided advice on our review scope and methods, participated in our formal briefing sessions, where our findings were discussed in detail, and provided comments and suggestions on our report draft.

To understand the management structure and process and the problems facing DLA managers, we

- examined DLA's organization and the various management mechanisms used in planning, directing, and controlling its operations;
- considered the environment in which DLA must operate (i.e., what external influences and/or authority exists that impact on DLA management);
- reviewed laws, regulations, and other policy and planning documents;

- compiled and reviewed audits, inspections, and other studies and evaluations, documenting problems in DLA programs and activities;
- gathered data on perceptions of DLA management performance through a mix of interviews and, in some cases, questionnaires completed by DLA officials;
- discussed DLA performance with OSD and military services officials;
- calculated productivity trends based on DLA data and discussed changes in productivity with its personnel;
- reviewed timeliness and quality measures used by DLA; and
- reviewed ongoing management improvement initiatives.

We briefed congressional staff members and OSD logistics and DOD Inspector General officials on the management issues we identified. We periodically met with DLA's top managers, including the Director, Deputy Director, and the Comptroller. These meetings helped us understand how DLA is managed and what areas are emphasized by top managers. This dialogue also provided the opportunity to present our views on issues raised by our work to top management for their consideration. During our review and consistent with our suggestions and observations and its management improvement efforts, DLA acted to strengthen its strategic planning; direction and control over its information resources; and controls over its materials inventories, funds, and other areas. More detailed information on the progress and problems DLA is experiencing in planning, directing, organizing, and controlling its management structure and mechanisms to meet its supply management and contract administration missions is in chapters 2, 3, 4, and 5, respectively.

We also obtained the written views of our expert panel on six areas important to DOD and DLA managers. Their views provided a broad, DOD-wide context and a historical perspective. The areas include (1) DLA's strategic planning, (2) position of DLA within DOD, (3) inventory management by weapon systems, (4) DLA war and contingency planning, (5) turnover of DLA personnel, and (6) DLA's contract administration function. The panel's views are included in appendix II for DOD and DLA's consideration in forming management policy in these six areas.

We did not attempt to verify the accuracy of all the program and activity data obtained during this review because of time constraints. With this exception, we performed this review in accordance with generally accepted government auditing standards.

DOD's formal comments on our report draft were received in January 1986. (See app. III, p. 103.) DOD concurred with our findings and recommendations and cited numerous actions—accomplished, ongoing, and planned—to address the issues discussed in our review. Because DOD and DLA actions are extensive, we have not evaluated the degree to which the actions will satisfy our recommendations. We will monitor those DOD and DLA actions as a follow-up to this review.

Planning and Related Functions

Agencywide planning is a key management function at DLA. Overall planning is done using a recently developed strategic planning process which includes a long-range plan and the shorter-range Management By Objectives (MBO) program. Other important planning areas include automated systems modernization and staffing needs. Planning to ensure DLA is prepared for wartime support of DOD is vital to military readiness. Also, the DLA budget process and related documentation for operations and the stock fund are important planning tools.

Policymaking and planning are directed and controlled by the Director, DLA, and assisted by the headquarters Office of Policy and Plans. The headquarters Principal Staff Elements develop the written policies and plans for overall program operations, subject to review by the Director and the Office of Policy and Plans. Commanders of Primary Level Field Activities, assisted by their offices of policy and plans, respond to headquarters guidance by developing their own policies and plans in support of DLA's many missions.

Policymaking

In many cases, DLA's policy actions originate from legislation, executive orders, internal or external studies/ audits, or DOD guidance on particular issues such as the DOD initiatives to improve the acquisition of spare parts. Because of its interaction with OSD and the military services, DLA has an input into many of DOD and the services' directives and regulations. Examples of policymaking actions include assisting OSD in developing revised DOD criteria for the management of consumable items and establishing policies for the disposal of hazardous materials.

Strategic Planning Process Developed

The need for long-range logistics planning has been emphasized throughout DOD over the last several years. The military services, particularly the Army and the Air Force, have been doing long-range logistics planning and believe it is valuable. In October 1983, OSD issued a DOD long-range logistics plan which contained planning guidance and objectives. The plan noted that long-range logistics planning must exist at every management level in the DOD establishment, and indicated that each service and DLA were expected to have compatible plans.

Responding to the OSD plan, DLA issued its first plan in March 1984. This strategic plan included a list of DOD long-range plans, a framework for a planning process, and planning objectives. During our review, we noted that a strategic planning process was not fully implemented because it was not required on a continuing basis or linked to the MBO program.

As part of our meetings with the Director, we emphasized the importance of this planning and encouraged its further development. There were several reasons for our views. First, future growth and expansion of DLA and its functions can be included in this plan to minimize adverse impacts on Agency operations. Second, since DLA is a decentralized agency with diverse functions, a single plan is desirable to guide managers towards common objectives. Third, because top management positions are, for the most part, held by military officers subject to frequent reassignment, the plan can provide a baseline for continuity towards long-range objectives.

In October 1984, consistent with our views and those of the Director, the Director decided that DLA needed to institutionalize a long-range strategic plan. This was made a high priority. Also, issues raised by the OSD Major Automated Information System Review Council on DLA's proposed ADP equipment replacement program underscored the need for better strategic planning. The Director was not comfortable with the lack of overall planning at the Agency and directed the headquarters Principal Staff Elements to develop a strategic direction toward the years 2000 and 2010 for their respective areas, which could input into an overall Agency plan.

In May 1985, DLA published a long-range strategic plan which contains strategic planning objectives and corresponding long-range objectives from each headquarters Principal Staff Element. The plan also includes a section on OSD's 1983 planning challenges and goals and information from military services' strategic plans. Other sections address the future operating environment, assumptions made in developing the plan, and DLA's overall management philosophy. Because it was prepared after our review was completed, we did not analyze the plan.

In June 1985, DLA issued a regulation on strategic planning which institutionalized this planning process by establishing policy and assigning planning responsibilities to offices and activities. This planning will occur on a continuing basis, with annual plan modifications as needed. Strategic planning will integrate DLA's short, mid, and long-range planning into an agencywide planning process, using MBOS to accomplish objectives which respond to the strategic plan.

In commenting on our report draft, DOD noted that DLA had taken additional steps to focus management attention on the planning process. (See app. III, p. 103.)

MBO Program—Short-Range to Mid-Range Blueprint for Action

At DLA, the MBO program focuses on performance and results by setting Agency objectives and supporting goals. The goals include targeted completion dates and the offices or individuals responsible for meeting these goals. General Agency objectives are established by the Director, whereas the various offices within DLA establish their own (specific) objectives.

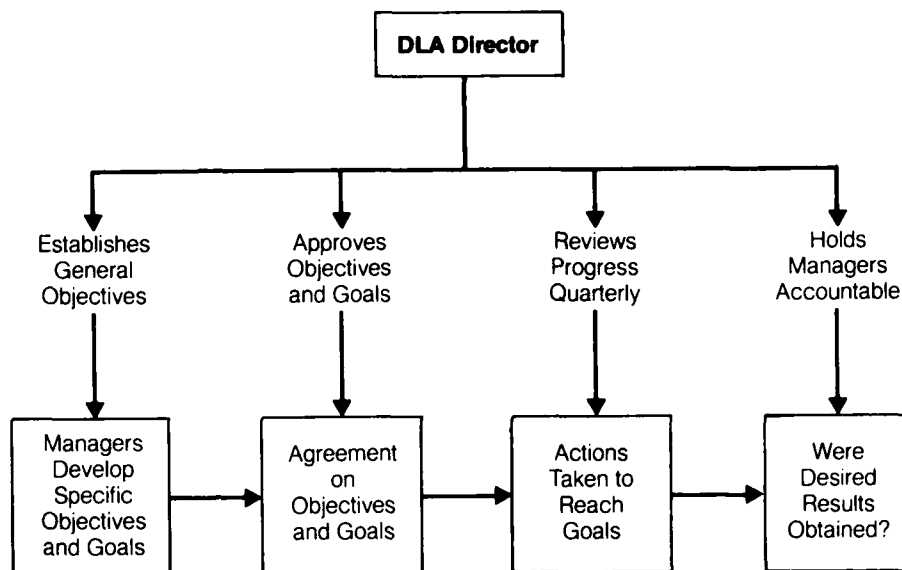
The areas currently addressed by the general management objectives are

- force readiness,
- management,
- quality,
- workforce excellence,
- acquisition,
- contract administration services, and
- environmental protection.

The MBOs serve to (1) establish agreed to and obtainable objectives, (2) set priorities for actions, (3) help in short-to mid-range planning, (4) focus resources on important areas, (5) improve communications between managers and subordinates, and (6) provide a basis for performance evaluations for managers.

An MBO approach has existed in some form at DLA for many years and much emphasis is placed on this as a management tool. It is an integral part of DLA's management process and is used throughout the Agency. The Director used the MBO program to reflect new areas of emphasis, stress the importance of results, and sharpen accountability of DLA's managers. Our review of MBO programs at selected field organizations indicates that the programs are active. Many managers told us that the programs were beneficial. Figure 2.1 shows how the MBO program works.

Figure 2.1: DLA Headquarters
Management by Objectives Program



Conclusions

The long-range strategic plan was completed in May 1985 and should be a valuable addition to DLA's management tools. It should guide managers towards common objectives and help provide a direct link to the logistics plans of DOD and the military services and DLA's shorter range MBO program. The plan should also help the Agency to continue moving toward its long-range objectives which transcend turnover of top DLA managers. During our review, we recognized DLA's efforts to institutionalize its long-range planning.

Overall, the MBO approach appears to be a useful management and planning system at DLA. Continuous top-level management attention and emphasis on MBOs is necessary to keep this program active and effective.

War and Emergency Preparedness

DLA has important functions in planning for wartime and emergencies, in addition to its normal peacetime activities. As a major participant in the defense logistics system, DLA must be prepared to support military combat actions with necessary supplies and services. DLA's preparedness role is crucial because of growth in the scope of the Agency's functions and an increase in the number of items managed.

This section describes many of DLA's most important preparedness functions. The first part deals with planning for wartime and other emergencies to help the Agency effectively meet these contingencies. Next, the role of DLA in military exercises to test these plans and determine support shortfalls and problems is presented. The last part covers two programs—war reserves and industrial preparedness—which DLA participates in to prepare for war mobilization.

The headquarters Office of Policy and Plans prepares plans and guidance, tests contingency plans, operates the command and control center, and serves as the focal point for communicating with the JCS and military departments. This office also monitors the contingency planning of the DLA Primary Level Field Activities, which includes receiving copies of field plans, overseeing testing these plans, and meeting with field organization planners.

War and Emergency Planning

DLA has issued a manual on its war and emergency planning system, which prescribes the scope of planning and specifies planning tasks for Principal Staff Elements and the Primary Level Field Activities. DLA prepares three types of related war and emergency plans—joint war support plans, basic emergency plans, and mobilization plans.

DLA's joint war support plans are part of DOD's Joint Operations Planning System. This planning requires coordination with JCS in defining the support required from DLA for wartime missions, as set forth in approved theater operations plans. DLA's war support plans cover the vital areas of fuels, subsistence, property disposal (reutilization), and other supply support.

The basic emergency plans are general purpose plans which encompass all DLA emergency planning functions not covered by other types of plans. These plans focus on continuation of DLA's essential functions in response to defense readiness alerts, domestic emergencies, and natural disasters.

The mobilization plans are essential to DLA's ability to transition from peacetime to wartime operations effectively and quickly in support of DOD's wartime missions. These plans are to set forth the resources needed to accommodate the increased workload which would result from a surge in requirements.

Detailed mobilization plans are now being developed for DLA's field activities. According to DLA, completion of these plans had been delayed because it wanted to base them on specific requirements from the military services. However, in August 1984, DLA decided to go ahead with its mobilization planning without all of the data on the services' requirements. As of June 1985, some plans had been prepared and DLA was still working on the remaining plans. DLA was also working with the military services to develop more specific mobilization requirements for DLA-managed commodities to improve the basis for this planning. In commenting on our report draft, DOD said that revised Army requirements were received by DLA and sent to the DLA field organizations in October 1985. The mobilization plans are to be supplemented to reflect this new data.

JCS Exercise Participation

DLA has become more involved in JCS military exercises in recent years, and according to the DLA officials, this increased participation has been beneficial. Exercises enable DLA personnel to test their war and emergency plans and provide them with training in their wartime duties. Also, exercises have pointed out potential problems which DLA could face in performing its wartime missions. The Director is emphasizing exercises by giving them more visibility and encouraging as many staff as possible to participate.

Exercise participation requires DLA to prepare an exercise plan and instructions, conduct a DLA planning conference, play the exercise with other DOD components, evaluate the results, and implement remedial actions. DLA analyzes each exercise and identifies needed remedial actions within its control. The analysis report is based on comments from exercise participants. DLA prepares a remedial action plan and the Principal Staff Elements are assigned responsibility for solving the problems identified.

Wartime Preparedness Programs

War reserve and industrial preparedness programs are directly related to DLA's potential supply effectiveness during a war. In managing these programs, DLA must work closely with the military services, which provide requirements for war materiel.

DLA manages many war reserve items which would be critical for sustaining military forces during a war. War reserve stocks are often below estimated requirements because of various factors such as funding constraints, short shelf life for some commodities, and the lack of suitable

storage space. This is a well-known problem in DOD and one over which DLA has little control. To provide for mobilization needs which the war reserve stocks cannot cover, DLA conducts industrial preparedness planning to help assure that industry could respond quickly with needed production of supplies. However, its industrial preparedness would also fall short of responding to all projected requirements, according to DLA.

DLA is concerned about war reserve and industrial preparedness shortfalls and believes this needs more attention. DOD has recently acted to improve industrial preparedness planning and to revitalize the responsiveness of the defense industrial base. As a result, DLA and the military services are required to prepare an annual production base analysis for use in making budget determinations for industrial preparedness programs.

Conclusions

DLA has important responsibilities for planning to carry out its missions during war and other contingencies. One of the responsibilities is planning for mobilization of the activities to accommodate increased workload to meet wartime demands. These plans have not been completed at major field activities. A headquarters mobilization plan was prepared as guidance for the field activities; however, detailed mobilization plans for the field units are still under development. The reason for the delay, according to DLA officials, is that DLA has been waiting for more specific mobilization requirements data from the military services. However, at the completion of our review, DLA officials informed us that DLA was working with the services to obtain better wartime requirements information.

Recommendations

We recommend that the Secretary of Defense review the progress DLA is making in preparing mobilization plans to assure that timely and appropriate requirements data are made available to DLA by the military services and that DLA develops necessary plans to effectively transition to supporting wartime missions.

Agency Comments and Our Evaluation

DOD agreed with our recommendations for improving DLA's mobilization planning and cited some actions taken and planned. These actions included development of DLA workload factors based on revised Army requirements and testing of DLA's plans. (See app. III, pp. 104 and 122.) DOD's comments are responsive to our concerns and recommendations on mobilization planning.

Plan for Automated Information Resources

One of the most far-reaching challenges for DLA management is the massive effort to modernize its automated information systems. Because of the size and nature of its activities, DLA is highly dependent on automated information systems to accomplish its most critical missions.

DLA uses extensively automated processes for delivering supplies and services to its customers. DLA also relies heavily on reports and data generated from its automated information systems to assist managers in directing, controlling, and evaluating performance. In many cases, the automated systems provide financial reports and data, as well as other management information on day-to-day supply, contract administration, property disposal, and other operations.

The automated systems supporting the major missions, particularly the largest and most complex ones (e.g., those supporting supply, contract administration, and property disposal), according to DLA managers, are rather old and are becoming increasingly cumbersome to operate and difficult to modify to meet changing and increasing Agency requirements. They have found systems problems, for example, involving difficult and untimely maintenance, unreliable data, and limited computer capacity. DLA is modernizing many of its automated systems and plans a large procurement of automatic data processing (ADP) hardware.

Modernization Efforts

DLA has upgraded, on an interim basis, the computers at most of its computer facilities to provide sufficient and more reliable computer capability. However, an increasing workload and the implementation of modern systems software have combined to consume much of the added computer capacity provided through these upgrades. As a result, additional computer capacity is currently needed to deploy more up-to-date software enhancements designed to provide users more current information.

DLA has planned and underway considerable efforts, both short- and long-range, to modernize its automated systems. These involve replacing the existing computer hardware at its 24 computer facilities and modernizing the major software systems at these sites. In addition, it is expanding its own telecommunications network and plans to modernize the Automated Digital Network, which provides communications within DOD.

DLA's modernization of major software application systems includes modifying existing systems, completing segments of systems which are

only partially implemented, and developing new replacement systems or segments. These efforts are intended to streamline current processes and improve data accuracy and timeliness.

Some of DLA's software modernization initiatives have been underway for many years and are expected to extend well into the late 1980s. For example, under several different efforts, DLA has been working since 1968 to modernize its contract administration information system. Also, since 1975, DLA has, under two separate initiatives, pursued the replacement of several existing property disposal systems with a modern system—Disposal Automated Information System. The development of this replacement system has undergone extensive and detailed documentation procedures. The first increment of the system, to cover the control and tracking of hazardous materials through the disposal system, is in final development and was scheduled for operational testing in late 1985, with initial implementation in early 1986. Efforts to modernize the depots' primary system began in 1978 and DLA estimates that the software for this application will not be ready until the late 1980s.

Costs of the Modernization

The investment associated with DLA's upgrade in technology will be substantial. DLA's May 1985 estimates are that the total life cycle cost for its ADP modernization initiatives will be about \$730 million, which will require a substantial increase in procurements of ADP and telecommunications equipment. For example, DLA plans to increase such procurements from \$20 million in fiscal year 1984, to over \$100 million in fiscal year 1987.

Status of ADP Plan

DLA's planning related to information resources had been criticized for a number of years by audit and outside consultant groups. DLA has recognized the need for improved ADP planning and in June 1985, prepared a comprehensive plan for its ADP management. The overall ADP plan recognizes the May 1985 long-range, agencywide strategic plan and includes functional requirements data, an integrated priority list of projects, and an acquisition and implementation strategy. The plan should help in future budget and procurement decisionmaking.

In commenting on our report, DOD noted that the June 1985 draft ADP plan has undergone some revisions and that additional revisions are planned by March 1986. DOD also pointed out that procedures are being developed to institutionalize automated systems planning. (See app. III, p. 105.)

Conclusion

Effective management of the modernization of DLA's critical ADP resources should be enhanced with the establishment of a long-range plan for automated information resources. We discuss in chapter 4 our concerns about DLA management's direction, control, and evaluation of the performance of its ADP programs against a plan.

Staff Planning Receives Added Emphasis

Workforce planning is a tool that helps to identify the workforce size and desired characteristics (e.g., occupations, experience, and grade levels) needed to accomplish assigned missions. Such planning involves many types of analyses and encompasses the DLA developed standards under the productivity measurement system.

Staff-needs planning, a part of workforce planning, compares the desired workforce attributes to the actual workforce skills and seeks to identify the gaps and alternative solutions. For example, through specific planning of its training programs, DLA can help ensure that employees progress from entry level positions to journeyman levels, and thus be able to perform the tasks needed to most efficiently accomplish a particular function. Also, analyses performed to identify training requirements for specific personnel should be helpful in identifying voids which can be filled through recruitment and/or promotion programs. This type of planning is especially important, since 75 percent of DLA's yearly operation and maintenance budget is for personnel.

DLA's regulation on staff-needs planning states that effective planning involves consideration of resource goals, mission and functions changes, workforce turnover rates in each occupation, availability of in-house employees with required skills and training, and labor market conditions. Because effective planning requires time, staff, and equipment, a staff-needs planning program must have management support at headquarters and at the field activities level. At the time we began our review in February 1984, DLA did not, in our opinion, have an adequate agencywide staff-needs planning program. We did find that DLA's MBO program includes various objectives and goals on personnel issues, such as training, awards, and promotions. However, an MBO, covering a staff-needs planning process or addressing the need to improve data collection methods to provide useful information for such planning, did not exist.

We believe the need for a DLA agencywide staff-needs planning program was demonstrated in mid-1984. Among other information, the new Director requested at that time employee profile information—turnover,

experience, and unmet training requirements—for contracting personnel in the supply centers and for contract management personnel in the DCAS offices. In this case, headquarters Principal Staff Elements had to survey the field activities for this information to supplement data in DLA's personnel data bank. The field activities had to gather the needed information quickly and often had to compile it manually. In turn, the headquarters officials had to summarize the field information. If an effective agencywide planning program had been in place, the requested information would have been readily available to the Director.

The Director has acknowledged the need for better personnel data to show personnel characteristics and to project skills and capabilities needed in the future. The data DLA compiled in response to the Director's request did show high employee turnover in key functional areas, as well as inexperience in the contracting workforce (e.g., 536, or 41 percent of the 1,292 buyers and line supervisors in the supply centers had less than 3 years of experience). DLA officials have cited increased turnover in the contracting workforce as contributing to falling productivity in the supply centers. In budgeting for personnel, DLA makes allowance for inexperience in its workforce, which translates directly into funds for additional staff to process the procurement workload.

DLA field activities have approached staff-needs planning in various ways and with different degrees of emphasis. Personnel turnover, a key piece of management data for staff-needs planning, is a good example. In computing employee turnover, the DLA field activities used various methods, yielding different indicators of turnover. Some computations included internal employee movement (promotions and reassignments), while others did not. A consistent definition of personnel turnover is needed.

Since mid-1984, DLA has issued more specific guidance on strategies for filling vacancies in a timely manner and ways to identify sources for satisfying staff needs. DLA now requires its major field activities to prepare annual recruiting plans. DLA headquarters officials told us that existing computer programs have been modified, and that more detailed personnel data are available through the personnel data bank to aid in its staffing analyses.

Conclusions

At DLA, top management is appropriately concerned with staff-needs planning performance and the need for improved control and guidance

in this area. We believe that additional attention should be paid to specifying data collection methods and procedures, the timing and nature of the plans, and how the staff-needs planning should fit into the MBO program. Management should have visibility of the condition of the workforce and should be able to measure the progress toward filling the gaps in such areas as training and experience. Enhanced effectiveness and efficiency, through better use of personnel resources, should be the results of DLA's successful planning.

Recommendation

We recommend that the Director, DLA, incorporate staff-needs planning concerns, such as the need for uniform data collection and methods, as part of the MBO issue for workforce excellence.

Agency Comments and Our Evaluation

DOD concurred with our recommendation that staffing-needs issues be incorporated into the MBO program. DOD also noted various staffing management actions taken by DLA since our review started. These include:

- Annual staffing plans from the major field activities.
- Standard definitions for personnel gains and losses.
- Improved ability to access the personnel data bank to show gains and losses and other needed data.
- Establishment of staffing goals.
- Development and use of other data in support of DLA's staff-needs management.

As a result of the above actions, DOD believes that the improvements to the staffing management process have passed the stage of planning and have become part of the operations. However, DOD agrees that top management at DLA should be kept informed regarding the performance of these efforts. DLA is incorporating this matter into its MBO program. This MBO item was to be developed by the end of January 1986. DOD's comments are responsive to our findings and recommendations.

Budget Formulation

Budgeting is a management process for planning and controlling the use of funds. DLA has two separate budget formulation processes—the appropriated funds budget and the stock fund budget. DLA's fiscal year 1984 \$1.5 billion operation and maintenance budget, the largest of the appropriated funds budgets, consists principally of the costs of its personnel and other costs incident to day-to-day operations. The stock fund budget (obligations of \$14.2 billion in fiscal year 1984) includes funds

for supplies needed to respond to the demands of the military and other DLA customers.

Operation and Maintenance Budget

The operation and maintenance appropriation comprises over 90 percent of DLA's total 1984 appropriations. About 75 percent of this is used for DLA employees' salaries. DLA's appropriations are part of DOD's appropriations for "defense agencies."

DLA uses performance standards, production rates, and productivity goals in formulating its operation and maintenance budget. Performance standards are used where available (65 percent of DLA's employees work in programs covered by such standards) and are applied against anticipated workloads. Where such standards are not available, DLA uses historical production rates or other measures in formulating the budget. A productivity improvement goal is also used in computing needed resources.

Field activities must accommodate actual workload or performance fluctuations (e.g., productivity not equal to projections) by shifting available resources within the organization or obtaining additional funds from or returning funds to DLA headquarters. Managers are to adjust the size of the workforce and utilize overtime to achieve overall maximum efficiency based on actual workloads as opposed to hiring staff based on authorized personnel ceilings.

We found that DLA, in formulating its operation and maintenance budget, uses efficiency rate goals to adjust performance standards downward to account for such factors as new work procedures, new legislative requirements, excessive personnel turnover, and inadequately trained staff. Performance standards are developed by DLA to show how much a worker should be able to produce at a normal pace. The judgmental adjustments to the standards have the effect of increasing the estimated resources needed.

We believe that adjustments, where needed to reflect a realistic budget estimate, are proper. To the maximum extent possible, however, these adjustment estimates should be based on objectively and systematically derived data available within the Agency rather than on judgments of the budget officials. For example, data on DLA's workforce characteristics (turnover, experience, training, etc.), should be collected and used in formulating the budget as well as for planning to enhance the quality of the workforce.

Stock Fund Budget

DLA procures supplies for its customers through the Defense Stock Fund. Stock fund items are paid for through the sale of the supplies to customers. The stock fund perpetuates itself by using revenues to cover expenditures. In addition, appropriations are made to the fund to cover peacetime expansion and war reserves.

DLA prepares an annual budget for its supply requirements. The stock fund budget is formulated primarily from historical material purchase costs and demand data from various automated and manual systems. Demands are estimated for most commodities on an item-by-item basis and the quantity of materials already on hand is taken into account when the budget is compiled. When estimating demands, consideration is given to safety stock levels, war reserve needs, lead times for procurement, and, where possible, current estimates of needs provided directly by the customers (e.g., the military services). For fuels and subsistence, estimates are based primarily on current requirements provided by the military services.

Regarding the estimates used to formulate the stock fund budget, we found that DLA often lacked data from the military services on weapon systems criticality and parts essentiality for many of the items used on weapon systems. Because of the lack of information on many of the items managed under a priority support program, supply support may be provided and budgeted for at higher or lower levels than necessary. This creates an uncertainty over the stockage levels needed. Rapid growth in the number of items included in this weapon system support program (discussed in detail in ch. 3) makes the problem more acute.

Conclusions

We believe that the process and underlying data and assumptions for formulating these budgets could be improved through the use of systematic, up-to-date, and comprehensive data on DLA's workforce characteristics which affect expectations of how well the workforce will perform. Also, improvement in budget formulation could result from additional management emphasis on determining appropriate supply levels and budgets for weapon systems spare parts. (Additional observations and recommendations on how this latter point can be accomplished are discussed in ch. 3.)

Recommendations

We recommend that the Director, DLA, improve the process and underlying assumptions used in preparing the operations and stock fund budgets by using systematic and comprehensive data on DLA's workforce

characteristics, and by continuing the initiatives discussed in chapter 3 to obtain weapon systems spare parts data from the military services.

Agency Comments and Our Evaluation

DOD agreed with our recommendation for improving DLA's budgeting process and underlying assumptions, but cautioned that DLA should not use more resources than may be justified by the return on such an investment. Regarding DLA's stock fund budget, DOD pointed out that management efforts were underway to determine appropriate supply levels and budgets for spare parts and stated that this was receiving high-level management attention.

DOD's comments on the various actions to improve its staff-needs planning (e.g., personnel turnover and training data) show that better data may now be generated by DLA. We believe that such data should be used to formulate its budgets, as well as to manage its staff-needs activities.

Direction of Operations

This chapter discusses how DLA has progressed in achieving such goals as meeting customer needs to support weapon systems and achieving increased productivity and workforce excellence. For this discussion, and throughout this report, it is important to note DLA's operating environment and that its management does not have full freedom of action to resolve all problems encountered.

Management Influences and Environment

Various influences, as listed below, impact the extent and nature of DLA's management, planning, and program execution.

- Although many of its functions are business-oriented (e.g., buying, storing, managing, and distributing supplies), DLA is also responsible for supporting the readiness of the military services for wartime, as well as peacetime operations. While, in many cases, these elements are entirely compatible, DLA management decisions must consider the need to be ready to support wartime operations.
- DLA's planning and day-to-day operations are closely linked to the plans and the requirements of the military services. The resolution of problems affecting many of DLA's operations, therefore, requires a coordinated effort involving DLA, OSD, and the military services.
- DLA is a large organization with diverse functions. There is frequent turnover of DLA's top military managers and areas of management emphasis vary with each director. The traditional rotation of the director's position among the military services brings new management approaches to problem solution, management expertise and experience from different operations of DOD, and continual reassessment of management objectives and goals.
- Because of the large and growing workload and the need to assure prompt and effective response to military services' supply and other requirements, DLA depends heavily on automated information systems. The overall effectiveness of DLA management will depend heavily on how well it plans, develops, and maintains its information resources.
- DLA, not unlike other federal agencies, operates under a plethora of legal and regulatory constraints which directly affect mission accomplishment and limit alternatives for Agency actions (e.g., pay scales, procurement laws which promote social goals, central control agency prescribed rules and regulations).

DLA interacts extensively with functional managers in OSD, the military services, the JCS, the Congress, central agencies (OMB, Office of Personnel Management, General Services Administration, Treasury, etc.), its customers, and private industry.

Intensified Management of Weapon Systems Parts

The readiness of military weapon systems is vital to the combat capability of our armed forces. DLA helps to support the weapon systems¹ by supplying many of the items² necessary to maintain them in combat-ready condition. DLA estimated that, in fiscal year 1984, sales of weapon system items to the military services exceeded \$2 billion.

DLA's Weapon System Support Program is intended to provide special management attention and high visibility to items supporting priority weapon systems. Close coordination with the military services is necessary to ensure that DLA's supply support best serves the needs of the military services. To help achieve this objective, the Program is directed towards determining priorities for support of items. DLA collects data from the military services on the criticality of weapon systems and on item essentiality which indicates the importance of items to the operation of the systems. These two factors, system criticality and item essentiality, are used to determine support levels which indicate the degree of management attention and resources to be applied in support of the items.

DLA has established supply goals for providing the support deemed appropriate, and systems for monitoring the program, determined the actions needed to "get well" on item shortages, and acted, where possible, to address causes of supply shortages. Program visibility is maintained by both local and top management. Common problems causing supply shortages, documented by DLA, included unforecasted demands, increased administrative lead times, delinquent contractors, defective materials received, and procurement workforce turnover, which contributed to backlogs of procurement actions.

As shown in table 3.1, there has been a large increase since 1981 in the number of systems in the program. As the number of weapon systems included in the program has increased, the number of DLA items supporting the systems has also increased significantly. These items, which are provided to customers using DLA's normal supply channels, are virtually all managed by DLA's four hardware supply centers (Defense Electronics Supply Center, Defense Industrial Supply Center, Defense General Supply Center, and Defense Construction Supply Center). Items range from the unsophisticated, such as nuts and bolts, to the technically complex, such as fuel pumps, microcircuits and radar components.

¹Systems supported by DLA include weapon systems and other equipment necessary for combat.

²Items provided by DLA to support weapon systems include spare parts and other supplies.

Table 3.1: Growth in Weapon Systems Support

	Oct. 81	Oct. 82	Oct. 83	Sept. 84	Mar. 85	Percent increase
Weapon systems	128	157	474	730	974	+661
Number of items	234,209	353,927	454,815	631,257	696,852	+198

Supply Support Effectiveness

Management indicators show that DLA is performing its weapon system support operations at relatively high levels. Supply availability, which shows the percent of requisitions that are filled from on-hand stock, is the most important indicator used to monitor DLA support. Supply availability for all DLA weapon system items was 90.1 percent at September 30, 1984. Increasing volume of support requirements, driven by force modernization (fielding of new weapon systems), has tended to drive down DLA's supply availability recently. Despite a decline of 1.6 percent during fiscal year 1984, the DLA level of supply availability is well above that of the services for similar stock-funded items. For example, OSD told the Congress that DLA's supply availability was 6 to 14 percent higher than the services for consumable items in October 1983. Table 3.2 shows DLA's supply availability by service.

Table 3.2: DLA's Weapon Systems Support (by Service) as of September 30, 1984

	Army	Navy	Air Force	Marines
Weapon systems	174	132	150	274
Items	132,916	339,741	240,002	87,413
Supply availability (percent)	91.7	89.1	90.1	92.2

OSD logistics officials said that they believe DLA is performing well, overall, in providing supply support to the military services for weapon systems. According to OSD officials, DLA's high performance could be due to high funding levels, good management of consumable items, more automation, simple items, and commodity expertise.

During our review, we discussed DLA's supply support effectiveness with supply managers for the Army, Navy, and Air Force weapon systems. These officials were generally pleased with the support provided by DLA. We also contacted services' logistics headquarters officials who told us that DLA provides generally good support for their weapon systems and that they primarily rely on DLA's information to monitor performance. This data is made available to them by DLA in periodic reports

and quarterly briefings. They also said that DLA's cooperation and responsiveness have been adequate and cited DLA's participation in spare parts provisioning for new systems as an example. According to these officials, DLA and the services have been working together in nominating new systems for the program, identifying the items which support the systems, and assigning essentiality codes to items.

Need for Information to Manage Program

Although DLA's overall record is one of success, we noted that its management of the Weapon System Support Program is constrained. A reason for this is that DLA does not have all the information it needs from the military services on the criticality of systems and essentiality of items.

DLA depends on the services to identify the DLA-managed items used on the systems designated for intensive management. After the weapon system is accepted into the Weapon System Support Program, a delay may occur before specific support items are identified to DLA. Air Force headquarters logistics officials said it is very difficult for them to provide lists of supporting items for their systems. Also, the officials said that the items change over time because of modifications to systems which need to be coordinated with DLA. The Air Force, for example, is revalidating items needed for one of its oldest systems, the B-52 bomber.

Once the items are identified, DLA works with the military services to have essentiality codes assigned to the weapon system items. Only the services which use the items are in a position to determine the degree of essentiality each item must have in support of a system. While all new items entering the supply system will be assigned these codes, the services have not yet assigned essentiality codes to many of the older items. When essentiality codes are not assigned, DLA assumes these items are essential and tries to provide the highest level of supply support.

In September 1984, essentiality codes were not assigned to about 64 percent of the Defense Electronics Supply Center's weapon system items. Information at that supply center shows that when essentiality codes are assigned, about 60 percent are coded as essential and 40 percent do not warrant the highest level of support.

Programs are being implemented by the services to provide DLA with more complete weapon system coding. Since our review, the military services have begun to review their coding of weapon system items to

identify and supply the missing data. DLA records show that, as of March 1985, the military services had not coded about 37 percent of the DLA weapon system items.

DOD is not managing its supply inventory investments by relating supply availability levels to weapon systems' operational availability rates, according to OSD officials. Although progress has been made in developing this methodology, the effort has not provided a basis for determining the optimum inventory costs necessary to maximize the availability of combat systems. As a result, neither OSD nor DLA can precisely forecast the levels of stock fund investment necessary to achieve desired system availability. OSD has developed guidance on managing supply inventory by system throughout DOD which could help ensure available resources are used to maximize weapon system availability.

Conclusions

DLA and the military services are funding parts supply availability at different levels. The potential impact is that DLA's inventory investment may be more or less than needed to adequately support the military services.

We believe that OSD needs to further scrutinize the process for designating systems and coding items to ensure that the program is efficiently and economically achieving its intended effect, and that program cost is appropriate to the military services' goals for the availability of their weapon systems.

Recommendations

We recommend that the Secretary of Defense

- review the status and progress of the DLA Weapon System Support Program to assure that the growth in the systems covered is justified, the Program is accomplishing its intended purpose of concentrating resources on the highest priority systems and items, and that the cost of the higher levels of supply support is appropriate to the availability of the systems supported and
- ensure that the military services provide complete information to DLA which would enhance management of weapon systems support (criticality of systems and item essentiality).

Agency Comments and Our Evaluation

DOD concurred with our recommendations, stating that DLA's Weapon System Support Program is the subject of close OSD review. DOD cited DLA's active involvement in a major effort to implement the weapon system management concept approved by the Secretary of Defense in July 1985. The concept provides a wide range of enhanced weapon system management capabilities, including the interservice exchange of essentiality data that we found is not currently available to DLA in all cases. One of the objectives of the concept, according to DOD, is to provide the capability to compute requirements to achieve operational availability goals. The DLA plan for implementing the DOD concept is scheduled to be completed by January 31, 1986. DOD said that as the specifics of the DLA implementation plan are defined, they are analyzed in light of their impact on the current Weapon System Support Program. Additionally, DLA briefings to DOD on the status of its plan are intended to ensure effective oversight which is consistent with our recommendation.

DOD also pointed out that the military services have initiated aggressive programs to provide DLA needed information. The Air Force and Marine Corps have recently completed providing the information. The Army and Navy programs are still in process and are about 50-percent completed. The estimated completion date is the end of December 1986.

DOD said it is also pursuing a more comprehensive long-range solution to this issue as part of its effort to implement the weapon system management concept. For example, one of the requirements associated with the concept is the development of the automated capability to exchange essentiality and program data on an interservice basis. DOD stated that individual component plans for implementing the concept will provide more specifics on how this enhanced capability will be developed.

We believe DOD's comments are responsive to our findings and recommendations.

DLA's Productivity Management Program

Productivity management is the systematic and continual process of establishing, identifying, promoting, and implementing productivity improvement procedures, techniques and initiatives within each work unit and at every level of management. In addition, it requires a sustained effort to institutionalize the concept throughout the major management systems (e.g., personnel and budgeting) of the organization.

The President has stressed the importance of achieving productivity improvements. In 1985 he established a governmentwide productivity goal for a 20 percent improvement by 1992, and recently proposed legislation for achieving long-term efficiency increases in government. Specifically, the program would require each agency to

- define productivity goals and objectives, and initiate reforms to improve productivity;
- designate a senior official to direct the program;
- develop and maintain an accurate measurement system;
- have managerial and employee accountability for productivity improvement; and
- ensure productivity improvement is fully institutionalized throughout the agency.

DLA has an organizationwide productivity improvement program. DLA's program has a focal point within the Office of the Comptroller and the program is supported by top management throughout the Agency. The program also uses quantitative productivity goals and objectives for assessing operational performance. Measures of operational performance include not only measures of productivity, but measures of the quality of work and the timeliness of its accomplishment.

In addition, DLA management encourages active participation in its employee involvement program to help identify and promote productivity improvement opportunities. The productivity improvement program is tied together by a comprehensive productivity standards system. As noted earlier, over half of DLA's workforce is presently included under these work standards.

The DLA system, using the time it should take to perform tasks, provides time standards for managers to use in assessing performance, determining staffing needs, and allocating personnel. DLA's time standards are periodically adjusted, based on changed conditions. For example, if work tasks change at a depot as a result of improvements in automation, DLA's standards will be adjusted. This provides a moving base for DLA's measure of workforce productivity and thus, is a short-term efficiency measure.

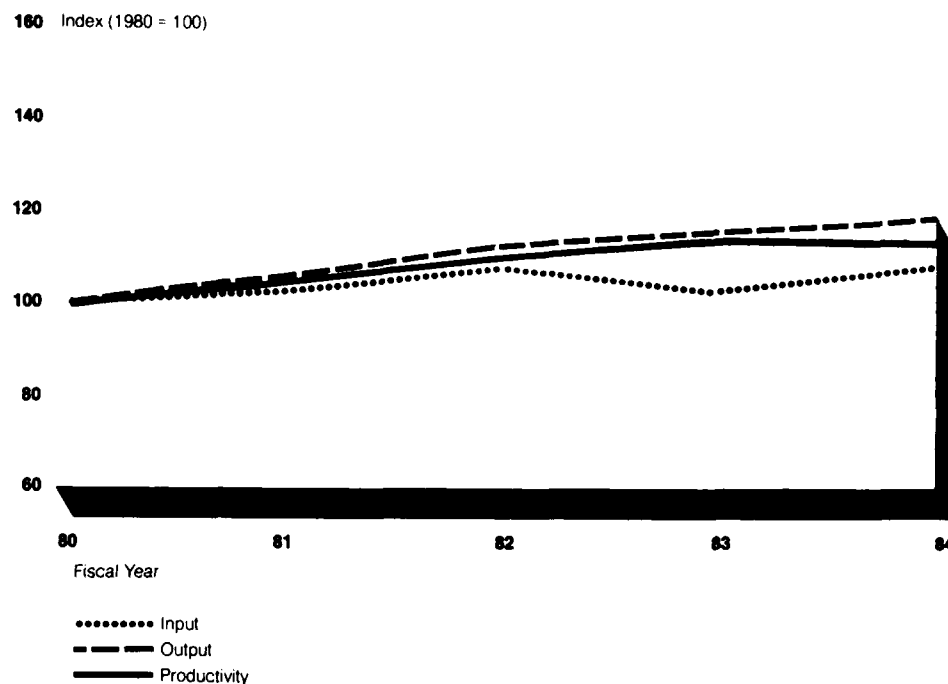
Productivity Trends

We used data from DLA's measurement system to compute historical workforce productivity trends from fiscal years 1980 through 1984. We determined productivity by comparing work production to labor input,

without adjusting for the changes in time standards. Trends, we computed, measure the magnitude of productivity changes, with 1980 as the base year—a long-term measure. This productivity data is only one of several measures which can be useful in assessing agency operational performance and are not substitutes for the standards developed by DLA.

The trend data we developed show that overall Agency productivity rose 14 percent between 1980 and 1983 (see fig. 3.1). This is an average annual growth rate of 4.4 percent. During the last year measured (1984), however, productivity decreased 2.5 percent. This was caused by an increase of labor input in 1984—larger than the increase in overall output. The cost of that 1-year decline in productivity equates to increased labor costs of \$23 million to produce the same amount of work. On the other hand, if DLA had maintained its average annual productivity growth rate of 4.4 percent, it would have required \$58 million less in staff resources. In addition to examining the overall DLA productivity trend, we examined the performance of major components—supply management, contract administration, and depot operations.

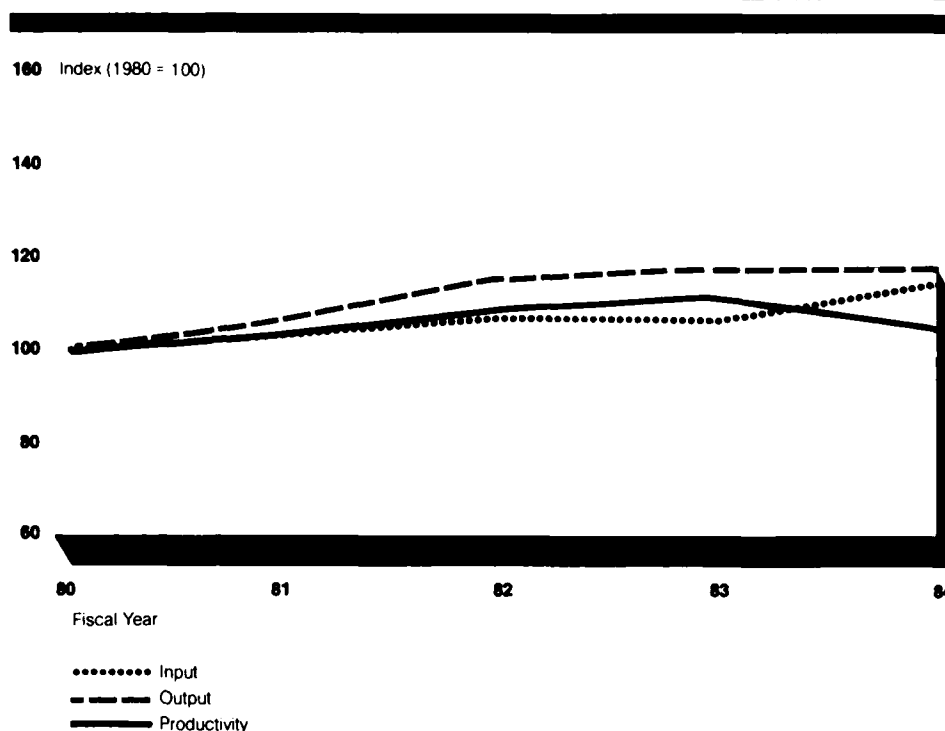
Figure 3.1 DLA Productivity Trend



Supply Center Productivity and Other Operational Performance Trends

Overall productivity data on the supply centers show an increase of more than 11 percent from 1980 to 1983, but a decline of 7.3 percent from 1983 to 1984 (see fig. 3.2). The supply centers' 7.3 percent decline is, therefore, significantly greater than the Agency average. Productivity and other performance trends of the supply centers for major functions of those centers—procurement and supply operations—are discussed below.

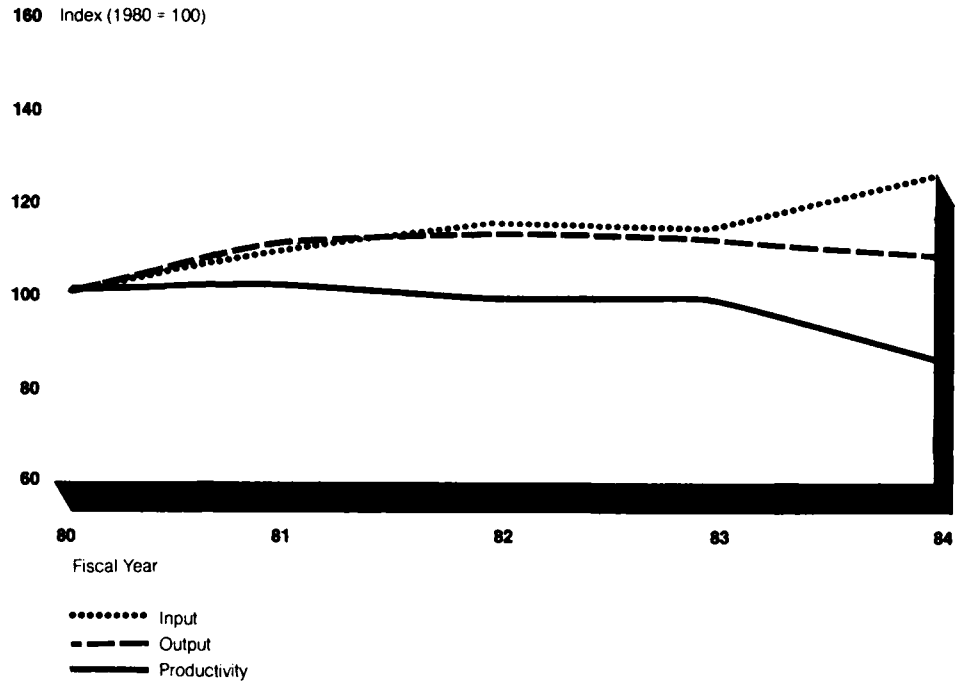
**Figure 3.2: DLA Productivity Trend:
Supply Centers Total**



We observed that the supply centers' procurement functions were the primary operations which declined in 1984. As shown in figure 3.3, labor input increased more than 9 percent from 1983 to 1984, while output decreased by about 5 percent, resulting in an 11-percent productivity decline. DLA supply center managers told us that they perceived the main contributors to the decline in productivity to be (1) a change in work patterns in some of the units, due to a redefinition of work between small and large purchases³, (2) increased turnover of procurement personnel (beginning in 1982), (3) increased time required for procurements because of the renewed emphasis on competition in contracting, and (4) problems in getting the new procurement staff trained.

³According to DLA management, this change added additional requirements to small purchase procurements such as Commerce Business Daily synopsis, small business reviews, and sole source reviews.

Figure 3.3: DLA Productivity Trend:
Procurement



DLA headquarters managers cited some of the same concerns about procurement personnel turnover and also noted that external factors such as legislative requirements can adversely impact on DLA's ability to economically and efficiently conduct its contracting functions.

Available data on quality and timeliness of supply center operations show mixed results during the 1980 to 1984 period. DLA's data show that one quality measure, overall procurement competition (percent of competitive contracts), improved from 48 percent in 1980 to almost 90 percent in 1984.⁴ Data indicate that this improvement was primarily the result of increased competition in the fuels area and the added emphasis on achieving competition. Supply availability, on the other hand, remained almost constant through the period. In 1980, it was 91 percent and in 1984, it was 91.3 percent.

A measure of timeliness, the backlog of DLA's procurement workload (unawarded contracts), however, increased during the 4-year period.

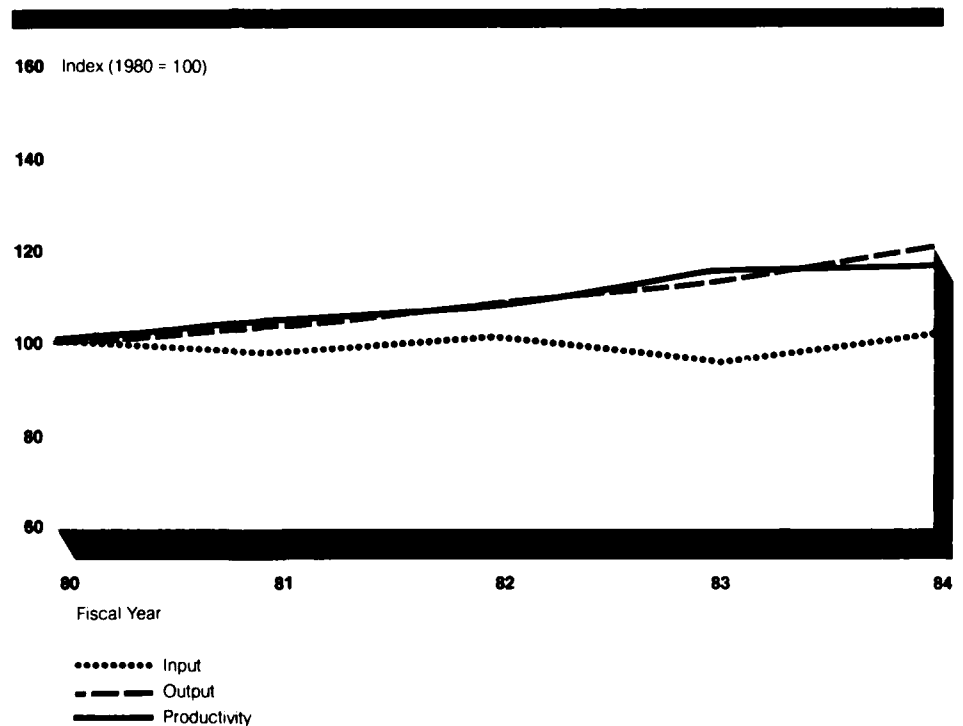
⁴Competition in the spare parts buying centers was about 68 percent in 1984.

DLA managers cited increased regulatory requirements which increase administrative lead times and additional reviews and justifications related to spare parts pricing and competition initiatives as contributors to this trend.

Depot Performance Trends Show Overall Improvement

DLA's depots receive, store, account for, and issue the supplies. Depot productivity increased almost 18 percent from 1980 through 1984 (see fig. 3.4). Modernizing and automating the depots have been ongoing for several years and was cited by DLA managers as contributing, in several cases, to improved productivity. Many other factors were mentioned by DLA managers as contributing to the productivity increase, including the increase in the number of small items in the work counts, work shift rescheduling, and the program for consolidating shipments.

Figure 3.4: DLA Productivity Trend: Depots Total



We examined two indicators of depot quality and one of timeliness. All three indicators showed improvement since 1980. The two measures of quality—stock locator accuracy and warehouse denial rates—have both

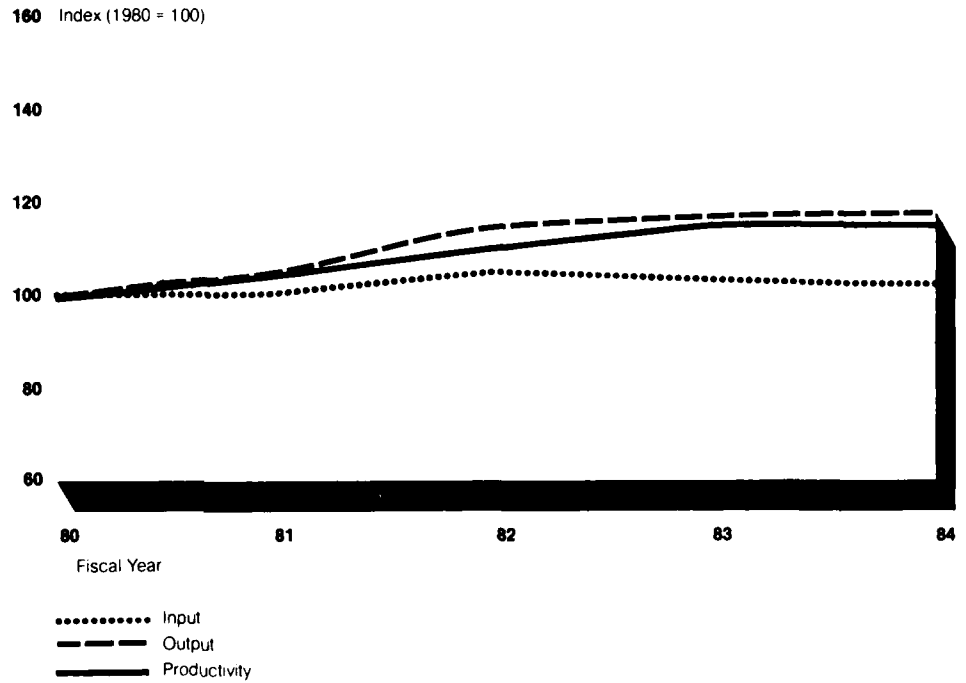
shown steady improvement. Stock locator accuracy rose over 2 percent during the 4-year period. Warehouse denial rates (percent of orders not filled by depots) improved from 0.98 percent to 0.68 percent. Personnel at the two depots we visited cited differing reasons for improvements in these two areas. Personnel at the Defense General Supply Center depot activity said that the improvement in automation was the primary reason, while the DLA Depot at Mechanicsburg, Pennsylvania, credits improved management accountability as the prime motivator of the increased performance.

The timeliness measure we examined was depot-on-time processing. This indicator is based on DOD's timeliness criteria for preparing materials for transporting to the customers. The DLA-wide trend has improved almost 2 percent since 1980—from 95 to 96.9 percent. The Defense General Supply Center depot activity and the Mechanicsburg depot improved 10 and 5 percent, respectively. DLA managers at these two depots said that improvement was primarily due to increased management attention and the emphasis on performance in this area.

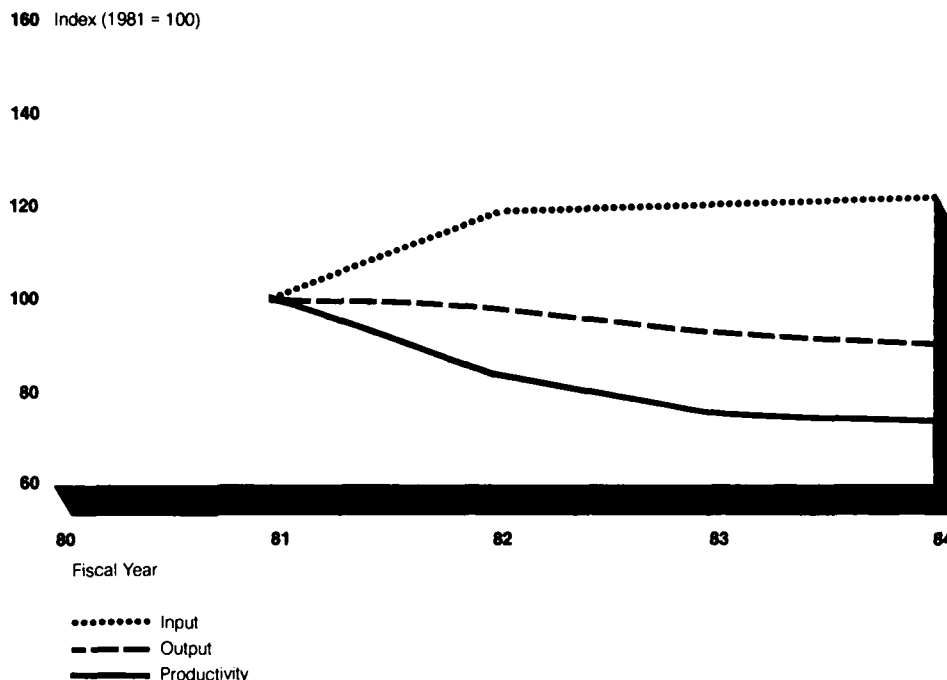
Recent Productivity Trends at Contract Administration Activities

Productivity data on DCAS activities showed nearly a 15 percent overall increase in the last 4 years (see figs. 3.5 and 3.6). Like the agencywide trend, productivity for the contract administration workforce leveled off in 1984, the last year we measured. Productivity was up in all the measured areas except in pricing and financial analysis, which declined 25 percent.

Figure 3.5: DLA Productivity Trend:
DCASR Total



**Figure 3.6: DLA Productivity Trend:
Pricing & Financial Analysis**



DLA headquarters officials pointed out two major factors to consider in interpreting this decline in the pricing and financial analysis function. They noted that personnel in the pricing and financial analysis area increased, while the total pricing and financial actions decreased during the 1980-1984 period, thus indicating a decline in productivity. About 40 percent of the pricing and financial analysis workload involves reviewing contractor price proposals, referred to as pricing cases. The dollar value of pricing cases has increased more than 140 percent (not adjusted for inflation) since 1980. In 1985, DLA implemented work measurement standards that recognize the Agency's view that the level of review effort increases with larger dollar value pricing cases.

DLA officials also cited changes during the 1980-1984 period, which resulted in more time-consuming pricing and financial analysis in the areas of spare parts pricing reviews and preaward financial reviews. Pricers have been directed to use more detailed line-item-based pricing instead of sampling techniques to provide better assurance of reasonable prices and to avoid, to the extent practicable, a recurrence of spare

parts "horror stories," as reported by the press. Consequently, spare parts pricing cases are requiring more time to accomplish. More detailed preaward financial reviews are also being accomplished. This change reflects increased emphasis on the importance of using preaward surveys to assure that only qualified suppliers are awarded contracts. The number of preaward financial reviews increased 11 percent from 1980 to 1984. According to DLA officials, they have attempted to absorb the increased and more intensive preaward workload by decreasing the level of effort on postaward financial reviews.

Opportunities for Improvement

DLA's recent declines in productivity provide a challenge to the Agency to turn those trends around, especially in supply management and contract administration. We believe a number of opportunities exist to help the Agency achieve this improvement. These include:

- Use of available productivity information.
- Agencywide communication of productivity improvement opportunities.
- Managerial accountability for productivity improvement.

DLA managers at two Primary Level Field Activities stated that timely and accurate reports used to produce productivity information, are not being received from one of the major systems—the Labor and Production Effectiveness Reporting System. As a result, managers at one Primary Level Field Activity had begun to keep manual records of the work centers' performance and in some cases, used these records to update the automated reports. DLA headquarters managers informed us in October 1985 that actions have been initiated to improve the accuracy of reports under this system and that they plan to further evaluate reporting accuracy in 1986.

DLA has issued guidelines for field organizations to report their methods improvement actions and associated cost savings to headquarters semi-annually. We found that the field organizations have not effectively used this method for reporting local improvement actions. While not reported through the formal channels, we did find some cases where other means, such as briefings and conferences, were used to disseminate information. DLA has recognized the need to strengthen the program for agencywide reporting of improvements and, as of May 1985, was considering some revisions to the current reporting procedures.

DLA uses merit pay and Senior Executive Service contracts to assess the performance of its civilian managers. We reviewed 70 randomly selected

merit pay appraisals and found that most officials were accountable for specific timeliness goals and more general quality goals, but that less emphasis was placed on productivity goals. Fitness reports, containing specific criteria for assessing the general performance, are used to evaluate military managers. These reports are not designed to, nor do they, establish and measure performance against productivity, timeliness, and quality goals. In our opinion, this lessens the accountability for achieving specified goals and objectives.

Added Emphasis on Quality Improvement

Improving operational performance is one of management's primary functions. We believe DLA should continue developing measures of the quality of its performance in such mission-critical areas as procurement and contract administration. DLA has successfully emphasized and used various methods for measuring, evaluating, and improving productivity and timeliness of its operations.

We believe the overall growth in DLA's workforce productivity attests to the positive impact this management emphasis has had. Quality, while more difficult to quantify or measure, is the remaining component of operational performance and addresses how well the Agency's activities are being carried out. In DLA, for example, this would include both

- process quality (e.g., how accurately the contract administration activities process financial data) and
- product quality (e.g., the quality of supplies and parts provided by DLA supply centers).

In January 1985, the Director designated "quality" as one of the Agency's general objectives under the MBO program. We believe that such top management emphasis is necessary to sustain and improve the overall quality of DLA's services. The crucial tasks now are to (1) continue to define measures of quality, (2) set goals, and (3) assess the trends.

In the quality assurance area, for example, DLA headquarters officials believe that there is a correlation between performance effectiveness and the effectiveness of contractors' inspection systems or quality programs. They told us in May 1985 that DLA is implementing additional measures of the contractors' performance. These include measures of the effectiveness of prime contractor control of subcontractor material, scrap, rework and repair costs, and measures of waivers and deviations

from contract provisions. The officials believe that DLA has made a concerted effort to motivate contractors to improve their productivity and effectiveness in these particular areas.

DLA has under development some automated systems for improving its measurement of the quality of DLA's supply and contract administration services. Progress in this area, like many other DLA initiatives, is closely tied to the ADP modernization.

Employee Involvement Programs

DLA field activities have established employee involvement programs known as quality circles. In many cases, we found that the success of these local programs varied widely, depending on the support they received from the field managers. The Defense Industrial Supply Center, for example, has 27 active quality circles, with strong local command support and full-time staff with oversight responsibility. One successful project developed by a quality circle at this activity is a guide which explained how to access and use data from a standard automated management system. Savings from this project are estimated to be over \$51,000. The DLA depot at Mechanicsburg has also received command support and has completed a number of projects dealing with safety and worklife problems (warehousing schemes, replacement or improvement of equipment, loading dock shelters, and employee orientation systems).

We discussed with DLA officials our view that a strong management commitment to these efforts at headquarters and field activities could help in the identification and use of improved work methods. In February 1985, the DLA Director issued a letter expressing his support for quality circles and asking field activity managers for their support and assistance in making this program a success.

Conclusions

We believe that DLA's productivity program already meets some of the administration's proposed requirements for an effective improvement effort. These include a focal point for the effort, top management support, quantitative goals for improvement, and an active employee involvement program at many of its field activities. In addition, DLA's 4-year, overall productivity growth rate is slightly higher than the trend necessary to achieve the presidential goal for improvement by 1992.

Recommendations

We recommend that the Director, DLA,

- continue to emphasize both product and process quality by applying some of the same approaches used in measuring, evaluating, and improving efficiency (i.e., developing objective measures of quality for the major mission areas such as procurement and contract administration, setting goals, and assuring that managers are held accountable) and
- further improve the Agency's productivity management program by ensuring that the data in the Labor and Production Effectiveness Reporting System is accurate and timely.

Agency Comments and Our Evaluation

DOD concurred with our recommendations and said that DLA continues to emphasize both product and process quality. According to DOD, actions underway to achieve the objectives of the recommendation include:

- Productivity improvements stemming from DLA's efficiency reviews and the use of its performance standards process.
- Projects to increase the automation of data reporting in depot operations, contract payment, and quality assurance functions.
- Procedures to audit data collection and reporting, especially in areas not amenable to full automation.
- Revised procedures to encourage timely and complete reporting of meaningful productivity improvements.

DOD agreed with our recommendation to improve the Labor and Production Effectiveness Reporting System, but cautioned that DLA needs to assure that efforts on this do not exceed the anticipated payback. DOD also pointed out several steps DLA is taking to address the problem of accuracy in this reporting system. We believe DOD's comments are responsive to our findings and recommendations.

Workforce Excellence and Personnel Concerns

DLA's policy is to build and maintain a workforce best suited to effectively carry out its missions. The Director recently designated workforce excellence as a general objective of the Agency under its MBO program.

Recruiting and Retention

DLA managers have identified key occupations where both recruiting and retention of employees are problems that need to be addressed. These staffing problems affect all the major field activities.

Our analysis showed that the degree to which personnel recruiting and retention are problems vary by such factors as location and occupation. In certain geographical areas such as Los Angeles, California, and Dayton, Ohio, personnel often leave DLA for employment in the private sector or transfer to other DOD activities for higher grades, thus increasing turnover. Engineers, quality assurance and computer specialists, and contracting personnel, for example, were among the occupations where DLA had recruitment and retention problems. These types of skills are critical to DLA's supply, contract administration, and other missions. Problems in recruiting and retaining personnel with these skills can adversely affect DLA's ability to accomplish its missions.

As we noted earlier, regarding workforce and staff-needs planning, assessment of the full extent and trend of these problems is difficult because DLA has not regularly and systematically reported personnel turnover and other data by occupations. In late 1984, DLA compiled data requested by the Director which showed that retention of employees for some occupations in supply centers and contract administration activities was a problem. Some of the factors contributing to the recruiting and retention problems identified by DLA managers are outside DLA's control. These include personnel policies and actions such as pay scales, classification standards, downgradings from classification reviews, and the state of the labor market.

DLA is taking a number of actions to address its staffing problems. At the time of our review, DLA managers were developing specific objectives to address recruiting and retention problems and were developing the detailed tasks to be accomplished in support of those objectives. DLA is also seeking to improve career opportunities, for example, in the areas of contracting and quality assurance.

Training

DLA has training programs for both technical and management personnel. Most of the managers we talked with believe that training is a problem to some extent. DLA did not meet its training goal to have 90 percent of its personnel, in the highest priority areas, trained by September 1984. DLA's special analysis data showed a high level of unsatisfied training requirements. DLA relies heavily on the military services' technical training schools to meet its requirements; however, these

schools have not been able to provide all the training slots DLA needs. Other difficulties identified by DLA in getting personnel trained included inadequate funds for travel to the training sites, cancelled attendance at courses, employee turnover (which increases the training requirements), and competing priorities between work and training.

DLA is acting to address its training shortfalls. In the contracting area, for example, DLA has estimated its training requirements, and is developing plans to satisfy them over the next 2 years. DLA has also allotted additional resources for training, initiated efforts to have employees certified to teach service school courses at DLA, and is closely monitoring the availability and use of service school training slots.

In commenting on our report draft, DOD noted several DLA training actions since the initiation of our review. These involved (1) reducing the rate of service school cancellations, (2) contracting out for training, (3) identifying and using training resources, and (4) implementing an interim training management information system to track training needs until the planned training subsystem is implemented. (See app. III, pp. 111-113.)

Conclusions

We believe that a more systematic data collection and analysis of personnel turnover and related data will be necessary to help appropriately set recruiting and retention goals, track managers' performance, and plan staffing needs.

We also believe that DLA should continue its training initiatives. Management visibility of these initiatives will also require a data base and a related reporting scheme. Part of DLA's ADP modernization is focused on developing a system which will include a segment on personnel management.

Organization

DLA's effective conduct of its missions and functions is contingent upon its leadership and the management process and environment. To put the Agency's operations in context, its management structure and roles should be understood. This chapter describes the roles of key managers, and specifically discusses two management areas—automated information resources and internal audit.

Managers' Roles

Although most of the workforce is civilian, military personnel hold most of DLA's top management positions, including those of the Director, the two Deputies, and heads of nearly all of the major field activities. These military managers are assigned for a tour of duty of about 3 years. Civilians also hold key management positions, especially at headquarters (e.g., contracting, Comptroller, contract management, and technical and logistics services). Often, a military head of an organizational unit will have a civilian deputy or vice versa. The head of each major organizational unit reports to the Director.

A synopsis of the roles of DLA's top managers is shown below.

- The Director, currently an Army Lieutenant General, directs and controls DLA in the accomplishment of assigned missions.
- Of the two Deputy Directors, one acts as the second in command in exercising control over missions, operating programs, and related field activities. The other, Acquisition Management and the Senior Procurement Executive, has functional responsibilities which include contracting, contract management, and quality assurance.
- The Chief of Staff is responsible for organizing, directing, and controlling headquarters staff for the Director. His role relates to day-to-day operations and includes such things as coordinating staffing actions, screening paperwork, and conducting staff meetings.
- The heads of Principal Staff Elements advise and assist the Director in their respective areas of responsibility for the overall management of DLA. They perform basic functions in their respective areas—policy development and guidance; planning, programming, and budgeting; management and distribution of resources; and program performance review and evaluation.
- The commanders of the Primary Level Field Activities direct and control the operations of their activities to carry out DLA's missions of supply support, logistics services, and contract administration. The commanders' responsibilities vary by the types of activities, but all interact with the headquarters Principal Staff Elements which relate to their mission areas. These field commanders are directly responsible to the

Director and the Deputies for the management of activities under their control.

Direction of the Agency's Information Resources

During the past 10 years, numerous consultants' reports have highlighted problems in the organization structure and in the lack of proper controls over DLA's ADP resources. When we started our review in February 1984, many of the problems noted in prior studies were still being experienced. Our concern was that DLA was implementing a massive modernization of its information systems, requiring a large investment, without the organization and other controls in place to provide reasonable assurance of achieving an effective and efficient ADP modernization. We recognize the modernization efforts started many years ago and that DLA has been making changes to its organization to better cope with this undertaking, but further observations caused us concern.

For example, we briefed DLA officials during our review on our observations concerning the lack of a strong central management control over the ADP and telecommunications area, and on weaknesses in the ADP policies and regulations which specify roles and responsibilities and procedures to be followed. In our report on DLA's progress in implementing the Federal Managers' Financial Integrity Act¹, we also noted other Agency management weaknesses that precluded comprehensive review and evaluation and full reporting on the status of ADP internal controls.

In an October 1984 briefing to the Director, DLA, the headquarters functional manager for telecommunications and information systems reported various problems in the management of ADP resources, including

- ineffective headquarters' role and procedures which resulted in uncontrolled growth of unauthorized software applications and possible misuse of ADP resources;
- unclear headquarters' review procedures and criteria and lack of uniform application of procedures that led to nonstandard systems, costly duplication of effort, and misdirected resources;
- inadequate systems documentation guidelines which have resulted in misinterpretation of requirements and long development times;
- unclear and inconsistent directives; and

¹Defense Logistics Agency's Progress in Implementing the Federal Managers' Financial Integrity Act. GAO/NSIAD-85-148, Sept. 27, 1985.

- the need for a better appreciation of the importance of good cost and schedule estimating for automation initiatives.

To address these and other problems, DLA has undertaken numerous initiatives to increase central focus and control for the ADP program. In November 1984, the Director concluded that while the job was being done, DLA's computers were approaching capacity; many competing demands exist for the same ADP resources; and there was a general lack of integrated planning throughout DLA. To strengthen controls over ADP management, the Director assigned the headquarters functional manager for telecommunications and information systems the authority to

- assure compliance with current DOD and DLA directives;
- act as the sole tasking authority for the expenditure of ADP and telecommunications resources throughout the Agency;
- issue guidance and monitor performance to assure that ADP procurements are in compliance with DOD policies;
- approve significant changes to project plans;
- approve cost/benefit analyses and exercise controls over development of certain unique automated information systems; and
- perform field reviews, at least annually, of each data processing installation, and report to the Director on operating effectiveness and efficiency.

Further, the Director required that the revised policy be incorporated in DLA policies and regulations. Many of the policies and regulations were under revision in May 1985.

DLA has taken, and plans to take, additional steps to improve control over its ADP resources. It has reorganized some headquarters organizational units to achieve a more cohesive organization and is currently standardizing the ADP/telecommunications organizations for the supply centers, depots, and DCASRS. DLA headquarters ADP managers also started, during our review, to assess the implementation of programs for

- information resources management (required by Public Law 96-511 and DOD Directive 7740.1);
- data base administration (DLA-wide) to clarify organization roles and policy for DLA systems utilizing data base management systems (all of DLA's major software modernizations involve data base management systems); and
- quality assurance for software design, development, and maintenance.

At the time of our review, DLA planned to contract for a management study to review how well it is organized to effectively and efficiently manage its computer systems. This study may also make recommendations on needed adjustments in the Agency's management approach. The contract, according to DOD, was awarded in August 1985. (See app. III, p. 112.) These initiatives may activate further revision to existing ADP organization and policy.

Conclusions

While we have not assessed the implementation of the changes called for by the Director, we believe that, if appropriately implemented, the changes would increase central management control for DLA's ADP assets. We also believe that DLA needs to maintain management emphasis on evaluating ADP policy and regulations to clarify roles, responsibilities, and procedures for managing ADP resources.

Internal Audit Capability

Audits, reviews, and evaluations can be effective tools for assessing how well an agency's component organizations have been meeting their objectives, and for recommending needed improvements. DLA has various review and evaluation groups to assess and report on operations of the field organizations. These groups review such functional areas as civilian personnel, supply, quality assurance, contracting, and contract management.

DLA does not, however, have its own agencywide internal audit organization reporting to the Director. The former DLA Auditor General organization was abolished when the Defense Audit Service was created in 1976. In 1983, the Defense Audit Service became part of the DOD Inspector General organization.

DLA officials stated that, in many cases, the services, provided first by the Defense Audit Service and subsequently, by the DOD Inspector General, have been less than what DLA considers adequate. These officials believe that this condition has made it difficult for DLA management to be assured that the Agency is operating efficiently or to respond as quickly as possible to areas that need immediate attention. We reviewed the requests for audits by DLA from fiscal year 1980 through February 1984. Overall, the Defense Audit Service and the DOD Inspector General had included about 35 percent of DLA's requests in their audit plans. In April 1984, there was a backlog of 87 DLA audit requests to the DOD Inspector General, 19 of which the Inspector General indicated, to DLA, were underway, completed, or scheduled.

The extent to which DLA's requests are included in the DOD Inspector General's audit plan depends on how well they can compete against other critical elements for DOD Inspector General's limited audit resources. The DOD Inspector General develops the audit plan by considering self-initiated work, backlogged and current audit requests from DOD components, including DLA, and concerns of the Secretary of Defense. Requests that have DOD-wide implication usually receive a high priority for inclusion in the DOD Inspector General's audit plan. To be included in the audit plan, DLA's requests must compete successfully against these other elements.

In coordination with the DOD Inspector General, DLA, in February 1983, established internal review groups to report to the primary field activity commanders to alleviate this audit coverage weakness. This arrangement did not provide for internal audit capability specifically reporting to the DLA Director.

We discussed DLA's internal audit coverage situation with DOD Inspector General officials who acknowledged that the DOD Inspector General's policy has been to use most of their audit resources on large interservice self-initiated audits. They also acknowledged that this policy has had an adverse effect on DLA's audit requests, primarily because many of DLA's requests do not meet the criteria discussed above, and thus do not receive a priority high enough to be included in the audit plan.

The Assistant Inspector General (Auditing) acknowledged that the audit organization had not provided DLA's Directors all of the requested internal audit coverage, and commented, however, that this shortage in coverage has been in the "housekeeping or administrative" function areas. The Assistant Inspector General emphasized that the organization has done a good job in providing DLA internal audit coverage in the Agency's mission areas.

The Assistant Inspector General (Policy and Oversight) stated that DOD Directive 7600.2, January 10, 1985, written by the DOD Inspector General, authorizes DLA to have internal audit capability at its headquarters. Consequently, they did not object to the establishment of such an organization at the DLA headquarters to supplement audits by the DOD Inspector General. The Assistant Inspector General stressed, however, that if the DLA Director does exercise this alternative, a regulation or directive should be published, delineating exactly what the DLA internal audit organization will do. Inspector General officials also emphasized

the importance of staffing this organization with well-trained professionals.

Conclusions and DOD Position

Now that a DOD Directive authorizing DLA to have an internal audit capability at its headquarters has been issued, the DLA Director is in a position to decide if priorities warrant the application of resources to that capability. If this capability is set up, the Director should ensure that the organization is independent from its other operating activities and is staffed with well-qualified professionals.

In commenting on our report draft, DOD concurred with our findings, but pointed out that with the establishment of the internal review organization in DLA, the establishment of a new DLA inspections group, and with the Inspector General reviews, DLA now has sufficient audit and inspection coverage.

Management Controls

Based on our review of DLA's operations and numerous audit and evaluation reports, we identified some areas in supply management and contract administration that required increased management evaluation and control.

Accounting Inaccuracies and Related Control Problems

DLA's contract administration services play a major role in the defense procurement process and in the controls over disbursements and use of government procurement funds. DCAS is tasked with helping to assure that goods and services ordered by the government are of satisfactory quality and are delivered when and where needed, at the contracted prices. Because of the importance and magnitude of DLA's contract administration responsibilities, productivity, quality, and accuracy are key management indicators of how well this large segment of DLA's workforce is performing its mission.

The magnitude of the problems DLA's contract administration activities have in accurately accounting for and reporting on transactions on the contracts administered is not fully known. We did find, however, that for many years, the DCASRs have been experiencing problems in recording and accurately reporting financial data to the military services and other DCAS customers, and in making accurate payments on the contracts. A variety of data accuracy problems have been reported in various audit reports, including incorrect appropriation references, disbursements charged to incorrect appropriations, and incorrect contract obligation amounts.

Officials at the military services procuring activities we visited were concerned about significant personnel resources needed to research and correct inaccurate data reported by the DCASRs. Some of the military services officials also cited concerns over data inaccuracies as well as erroneous payments.

Manual Entry of Data

We found that a large portion of the contract data under DLA's automated contract administration information system had to be entered manually, which increased the chance of errors. The Military Standard Contract Administration Procedures (MILSCAP) were established in 1966 and were intended to enhance contract administration by taking advantage of automated transmission of data. Automated data entry minimizes manual intervention, thus helping to speed up the process and

reduce errors. The standard procedures, originally to be fully implemented by DOD activities by July 1970, were made optional in 1975 based on agencies' limited automation capabilities.

At the time of our review, the standard procedures had not been fully implemented by DOD procuring activities or the DLA supply centers. Because MILSCAP abstracting¹ has not been fully implemented in DOD, DCASRs must abstract and manually enter a large portion of the data into the automated system. The types of data entered into DLA's automated system include information on contract terms, funds to be used in making payments on the contract, and delivery of the goods and services. For example, data provided by DCASR Cleveland showed that 66 percent of the contract data received was entered manually.

Although the Army and some Air Force activities currently use MILSCAP, Air Force Logistics Command activities have not implemented abstracting. Also, the Navy is in the testing stage at several of its activities. DLA supply centers are using MILSCAP abstracting for contracts, but are not abstracting contract modification data.

The latest MILSCAP implementation schedules show that the Air Force Logistics Command would implement abstracting in September 1986, and that the Navy was tentatively scheduled for implementation in December 1985. However, the schedules are being revised and implementation will be further delayed, according to MILSCAP program officials. According to DLA's MILSCAP program monitoring official, the implementation date for abstracts of contract modifications is not yet known because the necessary computer programming efforts have been given a low priority.

Officials responsible for the MILSCAP program, both in OSD and DLA, said that the absence of a firm requirement for MILSCAP abstracting has impeded full implementation. The OSD MILSCAP program official said that when implementation was made optional, it was because DOD activities' automated systems were so outdated that the implementation requirement was impractical. The official further stated that with today's technology and permanence of automation, activities should have the automated capability necessary to implement and utilize MILSCAP. However, DOD officials noted that MILSCAP is based on ADP concepts that are over 20 years old (e.g., punch card formats), and that DOD is considering

¹MILSCAP abstracting pertains to contract records, prepared in machine processible form, that are transmitted from various government procurement offices to DCASRs.

upgrading to the "state-of-the-art" for all of the defense logistics standard systems.

Disbursement Process

The contract disbursement process is also labor intensive. Approximately 52 percent of all invoices are handled or reviewed manually to process payments and record the payment data in the automated system. According to DLA financial systems officials, 48 percent automatic payment invoice rate is a result of the system design (i.e., the system is currently programmed to set aside certain types of contract payments for manual processing). DLA officials told us that the redesign of the financial segment of the system should increase the rate of automated payments to about 90 percent, thereby reducing clerical errors. Originally, this modernization effort was to be completed in 1982, but the redesign was in the conceptual stage in May 1985. In commenting on our report draft, DOD stated that the redesign effort was scheduled to be completed by September 1988.

Personnel Turnover and Nonstandard Contract Forms Complicate Data Entry

Personnel turnover problems and the use of nonstandard contracts are two factors which further complicate the manual entry of data. Because of the heavy manual processing of financial data on assigned contracts, a significant level of personnel turnover can degrade the process. DLA accounting and finance officials stated that personnel who process contract financial data need at least a basic knowledge of the funding activity's accounting systems and regulations. Decisions must be made in recording data, which is often a confusing and difficult process.

DCASRs are experiencing difficulties in maintaining a stable workforce of contract processing personnel, which increases the potential for entry of erroneous data into the automated system. DLA headquarters and DCASR officials were concerned about workforce stability and DLA reported its concern to DOD in its 1984 Financial Integrity Act report. The accounting and finance officer for DLA stated that under a planned DCASR organization change, turnover problems may be somewhat alleviated because voucher examiners and data input clerks will have better opportunities to advance to higher positions than currently available within their units. Moreover, if the staff remains longer, overall knowledge and expertise should increase. DOD's comments on our report draft noted that this organizational change has been accomplished. (See app. III, p. 116.)

The process of DCASR personnel abstracting and manually entering such large amounts of contract financial data into the automated system is also complicated by military services procuring activities that use a number of different contract forms. At DCASR Philadelphia, for example, we found that data entry clerks must search for standard contract clauses in at least 10 different types of forms.

Problems in Accurately Recording and Reporting Contracts Administered

Since 1979, DOD and our audit reports addressed various problems in DCAS accounting functions. The reports cite problems with the accuracy of DCASR records, controls over payments to contractors, and obligation balances.

Accuracy of DCASR Contingent Liability Records

The contingent liability record is one of the more important records maintained by DCASRs because it contains data on the total contract dollar value, disbursements to contractors, and unliquidated obligations (ULOs). The contingent liability record also shows the status of funds for each line item of accounting data in the contract and is the primary basis for making and controlling contractor payments.

Problems with contingent liability record data noted in the audit reports included

- incorrect accounting classification reference numbers,
- disbursements charged to the wrong appropriation and/or customer, and
- errors in contract obligation amounts and overstated ULOs.

DLA officials told us that inaccurate contingent liability record data can result in erroneous payments to contractors. For example, if ULOs are overstated, a request for payment that exceeds the authorized amount can result in an overpayment. When the contingent liability record obligation amount is correctly stated, payments exceeding the amount are automatically voided or rejected as a result of controls in the automated accounting system. These officials also pointed out that accurate contingent liability record data is important in order to preclude duplicate payments (DCASRs receive numerous duplicate invoices from contractors).

Because funding activities base their accounting record adjustments on the data they receive from DCASRs, incomplete, inaccurate, or otherwise

erroneous contract transaction data hinder the activities' ability to control and report on the status of appropriated funds. Funding activities use the transaction data to match payments with obligations in order to maintain administrative control over appropriated funds. In addition, matching payments with obligations provides program information needed for making management decisions and for certifying to the accuracy of ULO balances.

**Problems in Data Reported to
Military Services and Other
Customers**

Based on our interviews with officials at 11 funding activities (DLA and the military services), a review of available documentation and review of a 1984 contractor report on financial management at DLA, we found that funding activities are having various problems with data DCASRs are reporting to them. These problems included

- citing the wrong appropriations,
- missing and/or incomplete payment data,
- incorrect dollar amounts,
- data which is not timely,
- erroneous payments,
- manual adjustments to data by the DCASRs which are not reported to the funding activity, and
- data sent to the wrong funding activity accounting stations.

Because funding activities generally do not maintain records to track this information, the prevalence or magnitude of these problems is not readily identifiable. However, we did identify some adverse effects of this situation. At one activity we visited (the Air Force Accounting and Finance Center), the problems experienced have created a backlog of work to reconcile or use appropriation data furnished by DCASRs. This situation, involving data as far back as fiscal year 1981, spurred discussion between Finance Center and DLA headquarters officials and during our review, DLA initiated actions to reduce the backlog.

We were able to obtain some statistical data at the Army's Tank Automotive Command that showed, to some extent, the magnitude of problems being experienced with DCASR contract payment notices. These notices show payments by DCASRs on contracts administered for the funding activities. Command officials told us that, overall, the activity is experiencing a 30-percent error or rejection rate for all contract payment notices received. For August 1984, 33 percent (1,710) of the 5,186 notices were found to contain one or more errors. The dollar value of

these notices exceeded \$12 million or 32 percent of the \$37.4 million in notices that month.

A July 1984 contractor's report on DLA's financial management operations stated that approximately 20 percent of DCASR fiscal year 1983 contract payment notices were rejected from the accounting systems at two DLA funding activities included in their study (the Defense General Supply Center and the Defense Electronics Supply Center). In addition, over 50 percent were rejected at a third activity (the Defense Personnel Support Center). The report also pointed out that system rejects generally result from incomplete or inaccurate payment data.

DLA accounting and finance officials told us that one reason for incomplete contract payment notices is that the notices do not contain all the line-item disbursement information required under MILSCAP. This subsequently results in rejection of payment notices at certain funding activities when the activity's system cannot locate the corresponding ULO. According to the officials, this problem in the DLA automated system will be corrected with the redesign of the financial portion of the system.

Controls Over Contractor Payments and Obligation Balances

DLA has accounting control procedures in place to prevent and/or identify duplicate payments to contractors and to reject transactions that will result in a negative balance for ULOs. However, we found that the controls on duplicate payments were inadequate, and negative ULO balances² continue because controls can be overridden and the process for reconciling negative ULOs is not emphasized.

Duplicate payments—Controls to prevent and identify duplicate payments, particularly when disbursements are processed manually, need improvement. DLA's accounting and finance officer acknowledged that a control problem does exist when disbursements are processed manually.

Although procedures have been established to help prevent duplicate payments, controls are not adequate to ensure that the procedures are followed. For example, at DCASR Cleveland, when a manual payment is processed, a voucher examiner must check two listings to ensure that another payment has not already been made on the same invoice number. However, adequate controls have not been established to ensure that this is done. Similarly, if a payment is due to be processed

²Negative ULO balances occur when total funds disbursed exceed the recorded obligations.

automatically, but instead is processed manually, a duplicate payment can occur.

We reviewed five contracts with invoices that had been paid in duplicate and found that three of the five duplicate payments were a direct result of manual processing. We believe that these duplicate payments could have been prevented if automated controls existed to ensure that all payments are reviewed and checked for duplication prior to their release.

Negative ULOs—Controlling and reconciling negative ULO balances is important because they can indicate either overpayments to contractors or transactions which were erroneously recorded. Negative ULOs can be caused by duplicate payments of invoices, contract modifications that decrease the contract price and related obligation below the level of disbursements already made, or payments charged to the wrong appropriation.

In November 1983 the DOD Inspector General reported inadequate reconciliation of negative ULOs as a problem at three DCASRs. In those cases, management was not placing sufficient emphasis on the reconciliation process. The DOD Inspector General reported that failure to reconcile contracts with negative ULO balances resulted in \$626,700 in undetected contractor debts. The Inspector General's review of 67 contracts with negative ULO balances showed that 34 had not been reconciled even though some had been in a negative status for as long as 4 years.

During our review at the Philadelphia and Cleveland DCASRs, we found that negative ULOs were not adequately controlled or reconciled. The DCASR records showed numerous contracts with negative ULO balances either for individual appropriations within the contract or for the contract as a whole. For example, as of October 1984, DCASR Cleveland had over 300 contracts with individual appropriation citations totaling more than \$43 million in a negative ULO status. As of September 1984, it also had over 200 contracts in an overall negative ULO status, amounting to about \$10 million. At the time of our review, neither DCASR was actively reviewing negative ULO balances to determine causes and/or needed corrective actions. At the Philadelphia DCASR we found that little emphasis was placed on reconciling negative ULOs. At DCASR Cleveland, this reconciliation process was inadvertently eliminated in an organizational change. The DCASR accounting and finance officer stated that he would take action to resolve the negative ULOs and reinstate the negative ULO review process.

DLA's automated system for contract administration has built-in automated controls to routinely reject transactions that will result in a negative ULO balance. However, transactions can be forced through the system by using codes that override existing controls. In certain situations, such codes are necessary to process data. For example, where a contract modification to increase the amount of obligational authority has been received by the DCASR but not yet entered into the accounting records, a forced-through transaction may be used to expedite a payment. This can create a negative ULO until the modification is processed.

Although a procedure exists for prior approval of all forced-through entries, the system does not generate a record which could be used as an internal control to verify that such transactions were properly authorized. DLA officials recognize that accounting clerks have a lot of flexibility with forced-through codes and that DCASR officials responsible for authorizing those transactions are not always involved to the extent that they should be. According to DLA accounting and finance officials, the financial redesign of the automated system will have more checks or controls to ensure that forced-through transactions are properly authorized.

Conclusions

To the extent that DLA's ongoing financial systems redesign reduces manual processing of data, some of the problems experienced may be alleviated. Other actions by DLA, such as providing better career opportunities for its staff, could also help reduce the personnel turnover. The Director's new emphasis on the quality of work will need to address the accounting accuracy matter. A push for greater standardization of data input will require additional steps by DOD to fully implement the automated transmission of contract data through updated MILSCAP abstracting and to achieve a greater uniformity of contract forms.

Recommendations

We recommend that the Secretary of Defense pursue a greater standardization of contract data by mandating the full implementation of MILSCAP (or an equivalent system) abstracting and establishing a working group to explore ways to achieve greater uniformity of contract forms.

We recommend that the Director, DLA, place greater emphasis on the quality of the accounting data produced by the DCASRs by directing them to perform the negative ULO balance reviews and conduct tests of the adequacy of controls over payments.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendations on the need to pursue a greater standardization of contract data. It acknowledged that the heavy reliance on manual entry of contract data contributed to the errors noted in our review. DOD believes that a greater use of MILSCAP is the solution to the problem and that its implementation continues to be linked to the rate of automation in the areas of contract administration, procurement, and financial management.

DOD believes that the problem is the failure to develop modern automated systems which can effectively generate and use MILSCAP data. DOD said it is encouraging more rapid development of modern systems that make it possible to phase in the use of MILSCAP, and that full implementation remains tied to systems modernization programs that move slowly.

Under the Modernization of the Defense Logistics Standard Systems Program, DOD is examining, with DLA and the military services, ways to improve electronic data interchange of logistics data. DOD said it is also pursuing a related effort to speed up and facilitate the interchange of MILSCAP data. An implementation plan for the standards modernization and a prototype improved MILSCAP test should be ready by the first quarter of fiscal year 1987.

DOD acknowledged that different contract formats continued to be a problem, especially with a lack of experience in the workforce. DOD believes that expanding the use of MILSCAP would solve this problem. While we agree that the ultimate solution could be full implementation of MILSCAP, we continue to believe that DOD should explore the potential for greater contract standardization as an interim measure to address the data accuracy problem.

DOD also concurred with our recommendations on placing emphasis on accounting data quality. DOD stated that DLA has issued instructions to the DCASRS, directing them to perform negative ULO balance reviews on a continuing basis. A quarterly report will be required to reflect the number of negative ULOs at the beginning of the quarter, the number reviewed and reconciled during the quarter, and the number at the end of the quarter.

DLA has reemphasized to the DCASRS the importance of the Accounting and Finance Quality Control Program in conducting reviews on the adequacy of controls over payments. Additionally, the Financial Systems Evaluation Office at DLA was established in fiscal year 1985. Its mission is to conduct an evaluation of each financial management and

accounting system operated within DLA to determine the degree of conformity with the principles, standards, and related requirements prescribed by the Comptroller General and with the guidelines prescribed by OMB. As part of its review, tests are conducted using predetermined test decks and predetermined results. These tests will assist in identifying deficiencies in the system that would permit duplicate payments.

DOD's comments are generally responsive to our findings and recommendations.

Financial and Other Management Controls Over Materials

Good financial management is essential to economical and effective supply support of the military services. Several problem areas have been identified by auditors and others in DLA's ability to effectively and economically control materials. Three areas are

- old, potentially invalid unliquidated obligations,
- controls over receipts of materials, and
- inventory record accuracy.

Old, Potentially Invalid Unliquidated Obligations

At the end of fiscal year 1984, DLA reported a balance of ULOs of \$5.9 billion. These ULOs generally represent supply items ordered from contractors but not yet received.³ As the due-in materials are received and payments are made, the ULO balances are reduced accordingly. About \$429 million of these ULOs were for materials which are over 180 days past the scheduled delivery dates. Over 60 percent of the \$429 million is over 1 year past due. DLA's reports on the age of ULOs understate the problem because the automated system for subsistence items does not age ULOs. Subsistence ULOs amounted to over \$567 million as of September 1984.

Audits and other studies indicate that the reported ULO balances, especially the older ones, are inaccurate. A 1984 consultant study noted that DLA had no standard goals for ULO levels by age group and that emphasis on ULO reduction had been sporadic. The accuracy of the reported ULO balances plays a role in DLA's supply and budget functions. For example, whenever additional orders for items are going to be

³In addition to materials due in, ULOs also include unpaid bills for materials received. Of the \$5.9 billion ULO balance, about \$1.3 billion, or 22 percent, represented the unpaid bills portion.

placed, supply managers must first consider the due-in materials in computing new purchase quantities. Failure to do so may result in procurement of more items than needed. Conversely, an underprocurement may occur if the due-in materials are not received and the reorder quantity computations were made in anticipation of receiving the materials. Due-in materials represented by these ULO balances are also used in preparing the stock fund budget and can, accordingly, affect resources requested for materials needed by the military services.

DLA has recognized that inaccurate ULO balances are a DLA-wide problem and is giving top management attention to this issue. In January 1985, DLA established goals at each supply center, except the fuels center, for reducing overaged ULO balances. Each supply center must identify the resources needed to review and resolve the current overaged obligations.

A DLA Comptroller official pointed out that the ULO goals were not made applicable to the fuels commodity because the reasons why any overaged ULO balances would occur on fuels contracts differed somewhat from the other commodities. The official noted that, in most cases, overaged fuels ULO balances occur as a result of contract disputes. We believe that DLA's actions are steps in the right direction; however, continued emphasis is needed to control overaged ULOs by identifying the causes of the problem. We also believe that the size of the fuels' overaged ULO balances (over half of total overaged ULOs) warrants the establishment of goals for that commodity. Goals could be set at a level that would compensate for the unique characteristics associated with the fuels commodity.

Controls to Ensure Receipt of Materials

DLA recorded losses of about \$23 million in fiscal year 1984 for materials paid for and for which DLA has no evidence of receiving. Another \$53 million⁴ of materials paid for were more than 90 days past delivery due dates as of November 1984. These amounts are for materials paid for before receipt by DLA and for which receiving documents have not been accounted for. DLA officials told us that they believed many of the items shown as being far past scheduled delivery dates may have been received but never taken out of intransit status because of paperwork problems. Our report in 1982 (PLRD-82-81, June 10, 1982) and reports in

⁴Subsistence items are not included in the past due amount because DLA's subsistence automated information system does not age intransit materials.

1984 by the DOD Inspector General and by DLA under the Federal Managers' Financial Integrity Act identified control over "intransit materials" as a weakness needing corrective action.

In many instances, funds are disbursed before the items being paid for are received by DLA storage facilities (or in the case of direct shipments, by the customer). DLA is authorized to make such payments under two methods—fast pay and source acceptance. The fast pay method provides for payments, under specified conditions, to contractors, based on submission of an invoice. A contractor's invoice constitutes a representation that the ordered supplies have been delivered to a post office, common carrier, or point of first receipt by the government. DLA estimates that about \$1.4 billion was paid under the fast pay method during fiscal year 1984. Under the source acceptance method, disbursements are authorized when a government official accepts the materials supplied by the contractor prior to its final delivery destination. DLA did not have estimates of amounts disbursed under source acceptance procedures. However, of the \$53 million of intransit materials 90 days overdue, about \$46 million related to source acceptance and \$7 million was under the fast pay method.

In response to DOD Inspector General reports on fast pay and source acceptance transactions, DLA established, in 1984, a headquarters team to review the intransit materials problem. The team, made up of personnel from the Comptroller, contracting, and supply areas had visited all the supply centers and had identified numerous problems which contributed to the overaged intransit materials balances. The team recommended over 40 actions to DLA field organizations for improving controls over intransit materials. The recommendations included better adherence to current policies and procedures, improved training, and changes to the Standard Automated Material Management System.

Some corrective actions have been initiated by DLA to improve the controls over intransit materials. In a December 1984 letter to supply center commanders, the Director noted that insufficient progress was being made in reducing intransit materials over 90 days old. The Director stated that there appears to be too little emphasis directed towards reducing intransits from procurement and that additional actions were needed to resolve the problem. While DLA supply centers were still experiencing problems in effectively reducing intransit balances at the time our field work concluded in February 1985, DLA reported to us that the intransit balance for materials due over 90 days was \$44 million as of March 1985.

Inventory Record Accuracy

Accurate inventory records are essential to economical, efficient, and effective supply support. Inaccurate records can result in critical supply shortages and prolonged delays in filling military service and other customer requisitions.

As part of its system to help ensure inventory accuracy, DLA depots are required to take annual inventories of material on either a complete, sample, or a selective basis. Depots also are required to take periodic, unscheduled, physical inventories of designated items when requested by the supply centers or whenever needed to confirm and/or correct suspected discrepancies.

After taking inventories, depots are to make the necessary adjustments to their records and report the physical counts to the supply center responsible for management of the items. The supply centers then compare the physical count quantities with the quantities shown on their accountable stock records, and after determining that all transactions have been considered, make the necessary adjustments to the accountable stock records. In fiscal year 1984, DLA made over \$400 million in gross adjustments to its \$10 billion inventory (about one-half were reductions and one-half were additions).

After adjusting the inventory records, the supply centers are required to perform causative research for adjustments involving items that are classified as sensitive or pilferable, and for adjustments in excess of certain dollar values. The purpose of causative research is to identify, analyze, and evaluate the causes of record errors in order to prevent their recurrence. If, as a result of the research, the supply centers find that an earlier correcting adjustment was erroneous, they are allowed to reverse the earlier adjusting entry.

Our November 1983 report⁵ showed that acceptable levels of inventory record accuracy were not being achieved at DLA activities because the basic reasons for recurring errors were generally not identified or corrective actions were not taken. We concluded that these problems were the result of (1) inadequate management emphasis; (2) noncompliance with the DOD policy for researching inventory discrepancies; (3) inadequacies in that policy, as well as in the implementation; (4) shortage of

⁵Navy's Progress in Improving Physical Inventory Controls and the Magnitude, Causes, and Impact of Inventory Record Inaccuracies in the Army, Air Force, and Defense Logistics Agency (GAO/NSIAD-84-9, Nov. 4, 1983).

qualified personnel; and (5) lack of individual accountability for inventory record accuracy.

In this report, we also recommended that the Secretary of Defense bring about needed improvements in physical inventory controls and inventory record accuracy. Specifically, we recommended that DOD adopt various actions taken by the Navy to improve inventory controls and records accuracy. Other recommendations dealt with expanding quality control checks, feeding back causes of errors to managers, changing policies and procedures for inventory adjustments, and increasing reviews of inventory performance by Inspectors General and other teams.

In September 1984, the DOD Inspector General issued a report on physical inventory adjustments at DLA. The audit objective was to evaluate the management of the physical inventory program within DLA, including the implementation of the recommendations we made in our November 1983 report. The Inspector General report stated that most of the unsatisfactory conditions we observed at DLA in 1983 still existed to some extent. For example, at the two DLA supply centers reviewed, the DOD auditors found that inventories recorded after research had been completed were inaccurate for 28 percent of the items reviewed, and that the reasons for inventory adjustments were incorrectly identified 22 percent of the time.

In reference to our November 1983 recommendations, the Inspector General report noted that the OSD and DLA had made changes that partially addressed them. We found, at the conclusion of our review in February 1985, that DLA had acted to implement all of our recommendations.

Conclusions

We believe that DLA management has taken positive steps to resolve these materials control problems, but continuous management attention is needed.

Recommendations

We recommend that the Director, DLA,

- assure that Agency internal controls, including managerial accountability, are adequate to control intransit materials;

- continue to emphasize the need to control overaged ULO balances, identify the underlying problems that lead to the build-up of the large balances, and establish specific goals for acceptable ULO levels for the fuels commodity; and
- incorporate, as an MBO, goals on inventory accuracy.

Agency Comments and Our Evaluation

DOD concurred with our recommendations. It stated that DLA will implement new goals on intransit materials, including an MBO goal, by the end of March 1986. Regarding overaged ULOs, DOD stated that DLA has identified the reasons for these overaged balances. DOD also stated that DLA is concentrating its efforts on two major parts of ULOs—undelivered orders and accounts payable.

In the contracting area, efforts are increasing to terminate or debar chronic poor performers, and to require significant monetary consideration for delivery extensions and invoke sanctions (suspension of fast pay or removal from automated award systems) against delinquent contractors. In addition, DLA supply centers have established lists of repeated poor performers, and awards to these contractors must be approved by the DLA Director of Contracting or his Deputy.

DOD said that during fiscal year 1985, DLA visited each supply center and the Boston DCASR to determine the causes for the overaged accounts payable portion of ULOs. DLA has found that some overaged payables are for undefinitized orders and contracts, where material was accepted but not paid for because the price had not been determined.

DOD also stated that in December 1985, DLA established a joint supply center/DCASR task group to make recommendations for reducing overaged accounts payable. This group also will propose fiscal year 1986 overaged payable reduction goals for all commodities, including fuels. Currently, the subsistence ULOs are not being aged because this capability has not been fully programmed in the subsistence management system. Programming to provide aged ULOs and accounts payable is scheduled to be included in the subsistence system by October 1987.

DOD also noted that DLA had a goal for inventory accuracy for fiscal year 1985 and an MBO goal for fiscal year 1986 is under development and will be completed by the end of March 1986.

DOD's comments are responsive to our findings and recommendations.

Controls Over Parts Entering the Supply System and Deletions of Unneeded Items

Effective and economical management of DLA's supply inventories is necessary for the accomplishment of its supply support mission. DLA employs various management controls and systems to assist managers in controlling inventory assets. Specifically, two of the control programs DOD created, and we reviewed at DLA, are the parts control program and the inactive item program. The parts control program is intended to promote the use of standard parts and prevent unnecessary items from entering the supply system. The inactive item program helps to eliminate unneeded items from the supply system. Both programs offer the potential to lower supply costs by minimizing DLA's inventory investments.

At the time of our review, neither program was functioning as intended. In recognition of this, DOD is acting to correct many of the shortcomings in these programs. Concerning the parts control program, a large portion of DLA's parts recommendations was not being accepted by the military services. The inactive item program does not ensure that items are effectively reviewed for retention/deletion decisions. A more detailed discussion of these programs, their shortcomings, and DOD's actions follows.

Parts Control Program

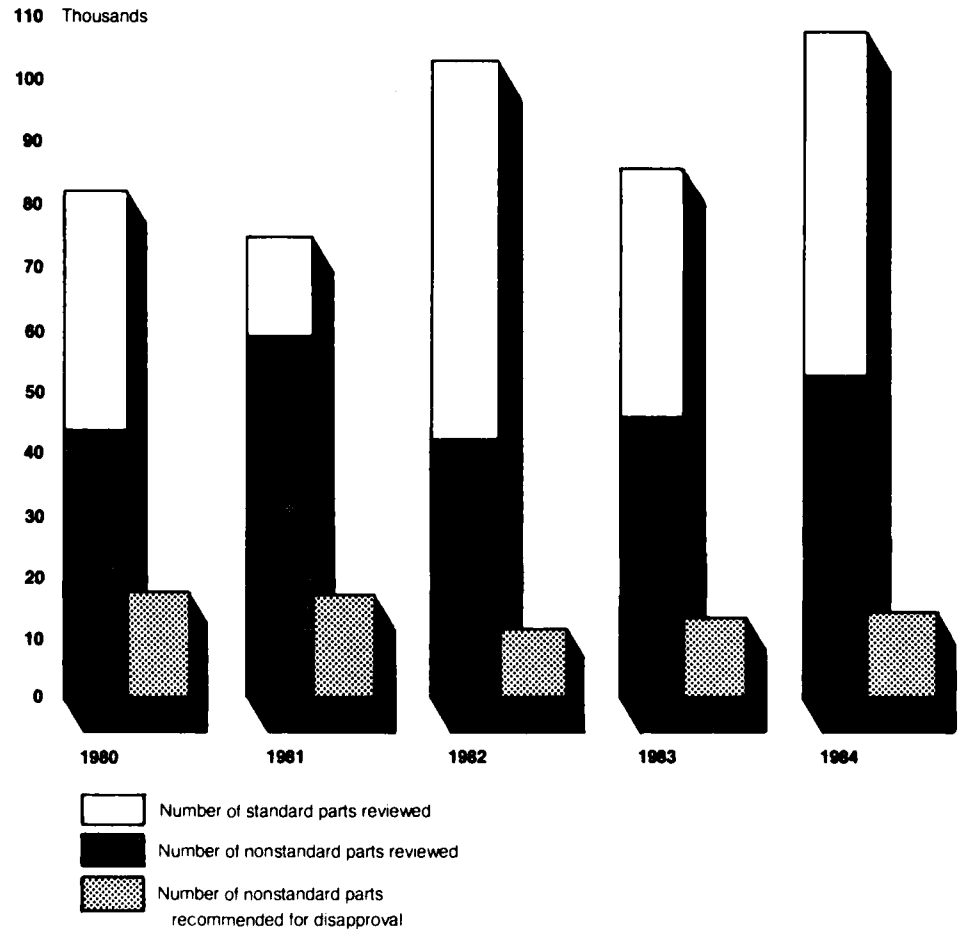
The parts control program, by promoting the use of standard parts in the design of defense equipment and systems, attempts to prevent unnecessary or duplicate items from entering the supply system. The DLA Director is responsible for the part of the program that is administered primarily by Military Parts Control Advisory Groups (parts control groups) located at DLA's four hardware supply centers.

Defense contractors are required to submit a proposed parts selection list to the appropriate parts control group for review. The contractors are required to justify the need for all nonstandard parts submitted for review. The parts control groups review the proposed parts lists and recommend to the military service procuring office that each part either be approved or disapproved for use by the contractor. If disapproval is recommended, the parts control groups must suggest a military standard or some other available part that can be substituted for the contractor recommended part. The service's procuring office (i.e., program manager) has the final authority to approve or disapprove parts recommendations. Once approved, the parts list becomes a part of the contract and is the service approved "menu" of parts from which the contractor may select to design or modify the equipment or systems.

During fiscal year 1984, the parts control group reviewed 108,771 parts submitted for 633 contracts. It recommended disapproval for 14,075 of the 50,915 nonstandard parts or about 28 percent. DLA claimed a potential life cycle cost avoidance of about \$139 million in fiscal year 1984 as a result of its recommendations. Estimated cost avoidance accomplishments are DLA's calculations of the cost not incurred because a nonstandard part has been prevented from entering the inventory.

Figure 5.1 and table 5.1 show how DLA reported its operating results for the parts control program during fiscal years 1980 through 1984. We found that DLA has not established annual goals for its part of the DOD Parts Control Program and DLA's annual program results have fluctuated substantially over the past 5 years. A recent DOD Inspector General audit found that the reported program accomplishments were overstated.

**Figure 5.1: Parts Control Program
Results Fiscal Years 1980-1984**



**Table 5.1: Parts Control Program -
Costs/Results**

	Fiscal years				
	1980	1981	1982	1983	1984
Potential cost avoidance (million)	\$148.7	122.1	115.5	129.0	139.1
Cost to DLA (million)	2.5	2.5	2.57	2.9	3.4
Benefit to cost ratio	60/1	49/1	45/1	44/1	41/1

Between November 1983 and May 1984, the DOD Inspector General audited the parts control program. The audit showed that the program was not working as intended. For example:

- Thirty-two percent of the contracts examined that should have contained provisions for parts control review did not contain these provisions.
- Of the contracts examined that did contain these provisions, 13 percent of the parts were not reviewed.
- About 88 percent of the parts control groups' recommendations were not implemented and, as a result, DLA's reported cost avoidance accomplishments were overstated.

In response to the DOD Inspector General's report, the Deputy Secretary of Defense has directed substantial changes to the parts control program, which include:

- Procuring activities must provide the parts control groups with data on recommendations accepted or rejected.
- DLA and the military services are to jointly monitor the parts control program to ensure that applicable contracts contain the parts control review requirement and that contractors are submitting proposed parts lists for parts control group review.

The Inactive Item Program

The purpose of the Defense Inactive Item Program (inactive item program) is to eliminate supply items that are no longer needed and to save resources such as warehouse space, personnel resources, and computer processing time.

The program is structured to identify items which have been in the supply system for over 7 years with no demands in the most recent 2 years. DLA refers each item that meets the program criteria to all registered users through military service focal points. Each user is required to evaluate the item for possible deletion from the inventory. If any user replies that the item is still needed, it will be retained. Table 5.2 shows program accomplishments reported by DLA.

Table 5.2: Defense Inactive Item Program: Deleted Items

Fiscal year	Items			Percent deleted
	Referred	Retained	Deleted	
1979	393,000	303,000	90,000	23
1980	336,000	219,000	117,000	35
1981	288,000	247,000	41,000	14
1982 ^a	199,000	163,000	36,000	18
1983 ^b

^aTransition year to new computer system. Data incomplete since program did not function effectively.

^bData for fiscal years 1983 and 1984 were not available at the time of our review because of computer program problems.

Since its initiation in 1963, the inactive item program has eliminated thousands of unneeded items from the inventory; however, it has also encountered problems. We reported on deficiencies and recommended corrective action in 1977 and 1979.⁶ Because the program had not been fully effective, in 1977 we recommended that the Secretary of Defense

- reemphasize the benefits of the inactive item program and periodically review the program's status,
- require DLA to improve its computer program to provide prompt and complete user information and statistical information on items eliminated as a result of the program, and
- establish a system to independently verify the reasons given by the military services for keeping inactive items.

In 1979, we recommended that the Secretary of Defense assure the inactive item program was accomplishing its goals. Furthermore, we stated that more aggressive follow-through was needed to assess program results and verify reasons for continued retention of nonessential items. During our review, we noted these same type of problems continued, as discussed below.

Automated Information System Problems

The inactive item program has recently encountered problems because of computer programming and related technical difficulties in merging the program with DLA's automated material management system.

⁶Defense Inactive Item Program Could Be More Effective (LCD-77-204, Jan. 26, 1977) and Fragmented Management Delays Centralized Federal Cataloging and Standardization of 5 Million Supply Items (LCD-79-403, Mar. 15, 1979).

In 1982, the inactive item program was changed from a semiannual to an annual screening cycle because the military services could not effectively review inactive item candidates twice a year. The supply centers have found that the 1982 computer program generated inaccurate statistical data on program accomplishments—candidate item referrals, retentions and deletions, and, in some cases, it erroneously deleted users of items from the master records. In one case, the Navy was erroneously deleted as a user of 50,000 items managed by the Defense Industrial Supply Center. In another case, 1,615 items needed by the Army were deleted from the supply system because of problems with inactive item program software.

Overall, the revised program was found by DLA to be unreliable as a management and analytical tool, and more importantly, it was not achieving its objectives. As a result, DLA developed temporary modifications for the computer program. In August 1984, DLA awarded a contract for development of permanent software changes to its overall material management system, including the inactive item program. Changes to the automated system have undergone operational testing at the Defense Industrial Supply Center. DLA believes that these revisions, expected to be fully implemented in 1985, will correct the problems.

Need for Improved Evaluations of Inactive Items

In 1971 and 1977, we reported that DLA was not effectively eliminating unneeded inactive items because the inactive items program did not provide for periodic independent verification of the military services' reasons for retaining them. During our present review, we, again, found no system existed to verify the reasons for retaining inactive items.

In October 1984, officials at the U.S. Army Communications-Electronics Command told us that it had not reviewed inactive item candidates received from the DLA supply centers because the number of items received—about 7,000—was too large to process. This command did not use an automated processing system to review inactive items; such reviews were done manually. We were also told that insufficient personnel prevented a thorough review to determine whether the items were needed. Except for some items already designated for deletion, the command's personnel automatically coded the items for retention. According to command personnel, items are usually designated for retention to be on the "safe-side" to avoid deleting items that may eventually be needed.

We found a similar situation at the Naval Aviation Supply Office. This command also did not have sufficient personnel to manually review 4,000 inactive item candidates. The items were coded for retention to avoid problems associated with reinstating erroneously deleted items.

At the Navy's Fleet Material Support Office, about 4,500 inactive item candidates were not received from DLA in time to allow processing on its automated system. Consequently, the items were coded for retention without review.

At the Air Force Logistics Command, we were told that the Air Force focal point automatically codes items for retention when its using activities do not respond by the end of the processing year. The focal point would rather err on the side of retention than be faced with the problems in reinstating deleted and disposed of items which may be needed later.

Conclusions

Although DOD directed that deficiencies be corrected in its parts control program, the Secretary of Defense should closely monitor the military services' and DLA's efforts to assure that the deficiencies are corrected. We believe that DLA should establish goals for its contributions to the program and that the Director should periodically review DLA's program operating results.

We found that because of program deficiencies, DLA and the military services cannot ensure that items no longer needed are deleted and that items that should be retained will be retained. These problems are caused by automated systems deficiencies at DLA and the military services and, in some cases, the lack of adequate reviews of the inactive item candidates by the services. The military services should develop the capability to effectively evaluate inactive items for retention or deletion from the inventory. DLA has made changes to its automated information system intended to correct the computer problems.

Recommendations

We recommend that the Secretary of Defense direct DLA and the military services to work together to develop the capability to make timely and effective reviews of inactive item candidates.

We recommend that the Director, DLA, establish Agency goals such as expected cost savings or proportion of recommendations accepted under

the Parts Control Program and have these results included as a part of his periodic reviews.

Agency Comments and Our Evaluation

DOD agreed with our recommendations. DOD said that a memorandum will be transmitted to the services and agencies directing greater management attention and emphasis on the review and elimination of inactive items from the DOD inventory. DOD also noted that it had made significant progress in the last year. These actions included systems changes in its inactive item program, a revision of its procedures manual, and efforts to increase management visibility and surveillance of policy implementation in the inactive item area. (See app. III, p. 118.)

DOD also stated that DLA has issued instructions to each of its supply centers where parts control groups reside. According to DOD, a goal of 90 percent was established as the acceptance rate for parts recommendations, commencing with the second quarter of fiscal year 1986. The instructions also provide for quarterly reports from the parts control groups.

In its comments, DOD also provided information on its ongoing and planned actions to improve its control over the parts control program. These included procedures and contract requirement changes and establishment of a review capability in DCAS to ensure that only parts approved under the parts control program are used in new designs. (See app. III, p. 118.)

DOD's comments are responsive to our findings and recommendations.

Controls on ADP Costs and Measurement of Computer Performance

At the time we began our review in February 1984, DLA's ADP management approach did not provide comprehensive control and visibility over total ADP and telecommunications costs. DLA was using a decentralized management approach for its ADP resources and had not fully implemented procedures to establish central control over ADP resource requirements. Also, the accounting system did not fully capture, and only partially allocated, the costs of modernizing and operating computer systems, nor did it provide sufficient detail needed to allocate telecommunications costs to program users.

DLA officials told us that information on computer systems operating efficiencies was limited and estimates of future computer capacity requirements were unreliable. They stated that this was mainly because

the Agency had not fully implemented a computer capacity management program with a full complement of experienced staff and computer measurement and modeling aids. In this environment, DLA ADP managers experienced considerable difficulty in estimating and controlling the costs of its ADP resources.

We discussed with DLA our concerns that if these management shortfalls went uncorrected, DLA would not be able to conduct a cost-effective and efficient ADP modernization program. DLA has taken, and plans to take further action to improve management control and visibility over ADP costs. As we discussed in chapter 4, the DLA Director, in November 1984, increased central management authority for the ADP budget by designating the DLA headquarters ADP manager as the sole approval authority for ADP and telecommunications budget requests. Additionally, DLA

- is developing a mechanism to better track costs and results,
- has implemented procedures to centralize the review and approval of all ADP and telecommunications requirements, and
- is relating requirements from functional managers to costs and to each automated information system.

DLA headquarters ADP managers plan to collaborate with the DLA Comptroller on proposed changes to the accounting system to increase visibility over the costs of developing, operating, and maintaining systems.

In May 1985, DLA briefed us on their efforts to establish and institutionalize a capacity management program. These included, for example, the establishment of a capacity management committee and development of appropriate regulations, development of computer models for installed systems and system design alternatives, and procurement of capacity software tools. In addition, since DLA has had problems attracting skilled capacity management staff, it has recruited college graduates and plans to establish a DLA-wide capacity management training program. While DLA has made progress staffing this program, its ADP managers estimate that many of the recently recruited capacity management staff will need 2 years of training and experience to attain journeyman level skills.

Conclusions

We believe that DLA's actions to increase central management control and visibility over ADP operations and costs and to implement a capacity management program are noteworthy. However, continued management

emphasis is necessary to ensure that new policy and regulations being formulated in these areas are implemented.

Recommendation

We recommend that the Director, DLA, complete a comprehensive computer capacity and performance evaluation program.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendations and provided information on corrective actions taken since we were briefed by DLA in May 1985. These actions, according to DOD, included (1) acquiring the capability to model proposed or partially-developed systems, forecast impacts on ADP and telecommunications capacity, and estimate costs of design alternatives; (2) procuring software products which would give DLA the capability to depict workloads and costs of installed systems by customer; and (3) institutionalizing capacity management DLA-wide. DOD said that DLA had adopted, as a goal under the MBO program, the completion of a capacity management information system. (See app. III, pp. 119 and 120.)

DOD's comments are responsive to our findings and recommendations.

Audit Follow-Up Procedures and Development of Audit Evaluation Trend Data

Audit, review, and evaluation findings, in our opinion, should be used to assess program effectiveness and initiate corrective actions when needed. We found that DOD and DLA policy and procedures require that managers take corrective actions to implement recommendations made by audit, review, and evaluation groups. However, DLA officials acknowledge that its existing procedures do not require selective on-site follow-up audits to ensure corrective actions were taken on reported deficiencies as required by DOD Directive 7650.3.

We discussed the verification of audit actions with DLA's audit follow-up program director. The director stated that a DLA regulation will be issued, establishing specific follow-up and reporting requirements to ensure responsiveness to audit recommendations. The program director also agreed that the revised regulation would provide for informing the DLA Director in cases where managers provide inaccurate information on the status of corrective action taken on audit recommendations.

As of May 1985, DLA's Internal Review Division was developing an automated data base to include such information as audit findings, complaints, special investigations, and internal control findings. Among the

many purposes of this data system is the identification of systemic problems which need to be addressed by DLA management.

DLA's follow up on the various management reviews conducted by the headquarters functional elements is handled independently by each of the headquarters staff elements. The findings of these reviews and those of the internal review groups are not presently subjected to management analysis to identify DLA-wide trends.

Conclusions

We believe that including summary information from various management reviews and evaluations (conducted in such areas as procurement, supply, personnel, contract administration, quality assurance, and security), as well as internal review group findings in a management information system, would enhance the prospects for identifying the scope and severity of systemwide management problems.

Recommendations

We recommend that the Director, DLA, increase the coverage of the planned automated data system for compiling audit findings to include findings from other review and evaluation groups in the Agency and issue needed procedures to help ensure that actions on audit recommendations are verified.

Agency Comments and Our Evaluation

DOD partially concurred with our recommendations. It stated that including information from the various management reviews in the existing data base would have benefits. DOD was not sure, however, if including management review and evaluation summaries would be the most productive use of data storage capability. DOD said that it would consider the merits of our recommendation in the future, after DLA gains further experience with the present data base.

Regarding verification of DLA actions on audit recommendations, DOD said that the DLA Director has tasked the internal review staffs with this responsibility. DOD said that DLA's new regulation on follow-up procedures establishes policy on verification and that plans are under development to implement this program. DOD's comments are responsive to our findings and recommendations.

DOD Organizations Visited by GAO in DLA Management Review

DLA

Headquarters, Alexandria, VA
 Defense Logistics Service Center, Battle Creek, MI
 Defense Construction Supply Center, Columbus, OH
 Defense General Supply Center, Richmond, VA
 Defense Electronics Supply Center, Dayton, OH
 Defense Industrial Supply Center, Philadelphia, PA
 Defense Fuel Supply Center, Alexandria, VA
 Defense Personnel Support Center, Philadelphia, PA
 Defense Depot, Mechanicsburg, PA
 Defense Depot, Ogden, UT
 Defense Depot, Tracy, CA
 Depot Activity of Defense General Supply Center, Richmond, VA
 Defense Technical Information Center, Alexandria, VA
 DLA Administrative Support Center, Alexandria, VA
 Defense Reutilization and Marketing Service, Battle Creek, MI
 Defense Property Disposal Office, Fort Meade, MD
 Defense Property Disposal Office, Aberdeen Proving Ground, MD
 DLA Systems Automation Center, Columbus, OH
 Defense Contract Administration Services Management Areas,
 Inglewood, CA
 Philadelphia, PA
 Van Nuys, CA
 Defense Contract Administration Services Regions, Cleveland, OH
 Philadelphia, PA
 Los Angeles, CA

OSD

Acquisition and Logistics, Washington, D.C.
 Research and Engineering, Washington, D.C.
 Inspector General, Washington, D.C.

Department of the Army

Deputy Chief of Staff for Logistics, Washington, D.C.
 U.S. Army Materiel Command, Alexandria, VA
 U.S. Army Finance Center, Indianapolis, IN
 U.S. Army Tank Automotive Command, Warren, MI
 U.S. Army Communications-Electronics Command, Fort Monmouth, NJ
 U.S. Army Support Activity, Philadelphia, PA
 U.S. Army General Materiel and Petroleum Activity, New Cumberland,
 PA

Appendix I
DOD Organizations Visited by GAO in DLA
Management Review

Department of the Air Force	Deputy Chief of Staff for Logistics and Engineering, Washington, D.C. Deputy Chief of Staff for Research, Development and Acquisition, Washington, D.C. Air Force Logistics Command, Wright-Patterson Air Force Base, OH Air Force Systems Command (Aeronautical Systems Division), Wright- Patterson Air Force Base, OH Sacramento Air Logistics Center, Sacramento, CA Air Force Clothing and Textiles Office, Philadelphia, PA Air Force Accounting and Finance Center, Denver, CO Air Force 2750th Air Wing, Wright-Patterson Air Force Base, OH
------------------------------------	---

Department of the Navy	Naval Material Command, Washington, D.C. Naval Air Systems Command, Washington, D.C. Naval Supply Systems Command, Washington, D.C. Navy Ship Parts Control Center, Mechanicsburg, PA Naval Aviation Supply Office, Philadelphia, PA Fleet Material Support Office, Mechanicsburg, PA Naval Accounting and Finance Center, Norfolk, VA Navy Clothing and Textiles Research Unit, Philadelphia, PA
-------------------------------	--

AD-A166 398

MANAGEMENT REVIEW: PROGRESS AND CHALLENGES AT THE
DEFENSE LOGISTICS AGENCY(U) GENERAL ACCOUNTING OFFICE
WASHINGTON DC NATIONAL SECURITY AND APR 86

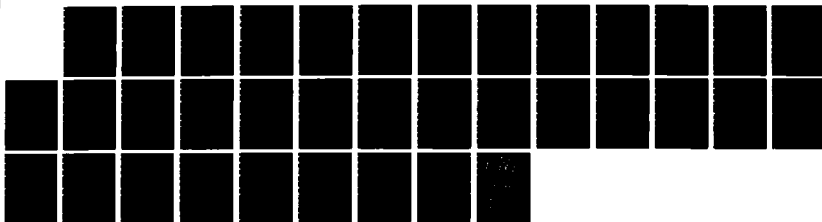
272

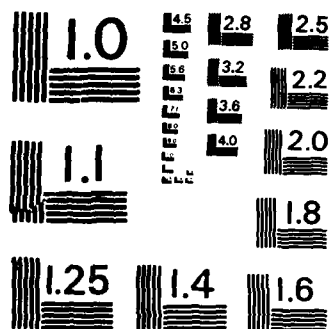
UNCLASSIFIED

GAO/NSIAD-86-64

F/G 15/5

NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

Comments by GAO's Expert Panel on Issues Affecting DLA Management

General Accounting
Office Washington,
D.C.

Attention:

C. William Moore, Associate Director, National Security and International Affairs Division

The ad hoc consultant panel was organized in May 1984 to advise the General Accounting Office (GAO) staff which, under the leadership of Bill Moore, was conducting a General Management Review (GMR). The Defense Logistics Agency (DLA) of the Department of Defense (DOD) was the subject of this review.

This panel consisted of the following persons listed with their relevant positions held:

Lt. Gen. Earl C. Hedlund	Former DLA Director
Lt. Gen. Joseph M. Heiser, Jr.	Former Deputy Chief of Staff for Logistics, Army and Logistics Consultant
Hon. Robert C. Moot	Former Assistant Secretary of Defense
Hon. Thomas D. Morris	Former Assistant Secretary of Defense
Gen. Bryce Poe III	Former Commander, Air Force Logistics Command
Mr. Paul H. Riley	Former Deputy Assistant Secretary of Defense
Lt. Gen. Wallace H. Robinson, Jr.	Former DLA Director
Hon. Barry J. Shillito	Former Assistant Secretary of Defense
Lt. Gen. Woodrow W. Vaughan	Former DLA Director

At meetings held during the GMR, the panel provided verbal and written comments on the progress and tentative findings of the GAO staff. During the last panel meeting (April 30 to May 1, 1985), the members were asked to provide comments and recommendations on specific questions. Attached is a brief consolidation of their responses to each question. The comments of the panel were individually submitted, but there generally was a consensus on the issues.

The panel has been privileged to advise GAO staff in helping to reach the Comptroller General's objective of improving defense effectiveness and efficiency. The cooperation of all is greatly appreciated.

Appendix I
DOD Organizations Visited by GAO in DLA
Management Review

Department of the Air Force	Deputy Chief of Staff for Logistics and Engineering, Washington, D.C. Deputy Chief of Staff for Research, Development and Acquisition, Washington, D.C. Air Force Logistics Command, Wright-Patterson Air Force Base, OH Air Force Systems Command (Aeronautical Systems Division), Wright- Patterson Air Force Base, OH Sacramento Air Logistics Center, Sacramento, CA Air Force Clothing and Textiles Office, Philadelphia, PA Air Force Accounting and Finance Center, Denver, CO Air Force 2750th Air Wing, Wright-Patterson Air Force Base, OH
------------------------------------	---

Department of the Navy	Naval Material Command, Washington, D.C. Naval Air Systems Command, Washington, D.C. Naval Supply Systems Command, Washington, D.C. Navy Ship Parts Control Center, Mechanicsburg, PA Naval Aviation Supply Office, Philadelphia, PA Fleet Material Support Office, Mechanicsburg, PA Naval Accounting and Finance Center, Norfolk, VA Navy Clothing and Textiles Research Unit, Philadelphia, PA
-------------------------------	--

The questions and the consensus of comments provided by the panel follow:

I. What major factors should be considered by DLA in developing its long-range strategic plan?

[GAO NOTE: DLA's strategic planning process is discussed on pages 24 and 25.]

- a. Office of the Secretary of Defense (OSD) long-range logistics plans
- b. Joint Chiefs of Staff (JCS) long-range plans
- c. JCS Operations Planning
- d. JCS emergency and contingency plans
- e. DOD's Five Year Defense Plan (FYDP) and budget
- f. DOD's extension to the FYDP (Extended Planning Annex)
- g. Military services' logistics plans (especially long-range)
- h. Military services fielding plans for weapon systems
- i. DLA's internal estimates of administrative, technical, and other changes in logistics operations and management which influence its mission
- j. Coordination with the General Services Administration and other governmental and industrial organizations
- k. Conception of what DLA's role is and should be
- l. Solutions to significant "choke-points," especially in a crisis

II. What is the best organizational position for DLA within DOD and to whom should the Director report?

[GAO NOTE: As described on page 10, the DLA Director reports to an Assistant Secretary of Defense. The Director does not generally have direct access to the Secretary and is also not a full member of the Joint

Logistics Commanders (JLC), made up of the logistics chiefs from each service.]

a. The Director of DLA should report to the Secretary of Defense, with the normal channel being directly to the Secretary or through the Deputy Secretary. The Assistant Secretaries of Defense (to include the one for acquisition and logistics) are staff officers of OSD and should supervise appropriate functions and missions of DLA, but the command line should be from the Secretary of Defense to the DLA Director.

b. The Director of DLA should have coordinating responsibility with the Director of the Joint Staff and the Logistics Directorate, JCS to coordinate appropriate logistics functions.

c. The Director of DLA should be a four-star position because of the scope of his responsibilities and to ensure effective relationships with four-star peers in DOD.

d. For same reasons as "c" above, the Director of DLA should be a full member of the JLC.

III. What issues and problems exist with relating DLA's supply availability to readiness of weapon systems? Would greater management of weapon systems supply inventories by system within DOD be valuable and cost-effective?

a. There was not a consensus among the panelists on the value or cost-effectiveness of a greater emphasis on managing supplies by weapon systems. The panelists did note the following potential problem areas and caveats on weapon systems supply management.

(1) To be valuable to managers, the management mechanism(s) established should produce information on why supply effectiveness on particular weapons is high, low, or changing.

(2) The creation of a series of special logistics support systems to enhance readiness of weapon systems would not be worthwhile. Such special systems could lessen the effectiveness of the standard systems that already provide for appropriate support of high priorities, which is basically what weapon systems management is intended to do.

[GAO NOTE: We did not address the current DOD policy and emphasis on inventory management by weapon system. This report focuses on DLA's

management of its support for weapon systems in response to DOD guidance. See pages 41 through 45.]

b. The basic, standard systems should be improved to include the following (which will improve support of weapon systems):

1. Catalogs must contain parts with end item (i.e., weapon system) identification.

2. Interchangeability and substitutability of parts, with indication of preferred items, must be included in cataloging.

(Panel Note: Some members of the panel emphasized the significance of the DLA cataloging mission and its adverse effect on other support functions, if not performed effectively.)

[GAO NOTE: This report does not cover the DLA mission of cataloging supply items for DOD. However, a brief description of DLA's cataloging activity is on page 16.]

c. DLA and primary service users of each weapon system must coordinate support plans throughout the Logistics Support Analysis and Integrated Logistics Support process, including provisioning of repair parts.

(Panel Note: Several panel members volunteered the opinion that all DOD consumable spares and repair parts should be managed by DLA; the services should concentrate only on components, modules and all other repairables.)

d. Many repair parts support more than one system (an objective of good management) which provides obstacles to separate weapon systems management.

e. The cost effectiveness of this policy should be ascertained.

f. Greater centralization of this process would be nonconstructive. Each service has the responsibility for specific systems and must plan with DLA so that support of these systems obtains the high effectiveness levels now provided by DLA (over 90 percent supply availability).

IV. What are the most critical areas which should be addressed by DLA in its war, contingency and emergency planning?

[GAO NOTE: DLA's war and emergency planning is discussed on pp. 27 through 30.]

- a. This question is related to the earlier one on strategic plans (question I.) and the answers to that question apply here, for the most part. DLA needs to be in concert with the services it supports and with OSD, JCS, and other organizations, especially pertaining to crisis planning.
- b. Internally, DLA must ensure that organizations and systems, such as the Defense Automatic Addressing System, Defense Contract Administration Services, and Defense Personnel Support Center are constantly ready to carry out crisis plans in coordination with those supported. Planning for support of petroleum, oils, and lubricants is particularly important.
- c. Also, DLA (including its contract administration functions) must assure that mobilization plans are prepared to respond to war and emergencies.
- d. Externally, DLA must coordinate crisis plans with all appropriate services and agencies and participate in military exercises in order to find opportunities for improvement.
- e. The functions of communications, automation, and transportation, related to DLA's mission effectiveness, must be continuously reviewed, tested, and improved.
- f. Personnel management planning for mobilization is essential, but must be done in conjunction with related agencies. Solving the problem of competition for scarce manpower resources is especially important.
- g. Also important is the need for computer redundancy and the capability to operate in the event of computer failure.

V. What can DLA do to cope with constant high turnover of personnel in certain critical occupations?

[GAO NOTE: See pages 33 through 35 and 58 through 60 for personnel management issues, including the turnover of DLA personnel.]

- a. Recognize outstanding performance.
- b. Recruit nationally as well as locally and develop and emphasize career development patterns for both civilian and military personnel.

- c. Execute appropriate training programs, to include intern programs.
- d. Use contractors in appropriate functions.
- e. Coordinate and cooperate with OSD and services in recognizing the future environment of scarce personnel resources and assist in planning to solve anticipated problems.
- f. Seek appropriate job standards with upgrading of critical occupations, as required.
- g. "Weed out" incompetence to make room for good people.

VI. Should DLA take an overall look at its contract administration function and should the Defense Contract Administration Services regional structure be reexamined?

[GAO NOTE: General information on DLA's contract administration function is on pages 14 through 15.]

(Panel Note: Because it is a controversial matter, complete panel consensus was not obtained on the propriety of another examination of DCAS.)

- a. An overall look at DCAS must include an examination of the regional structure.
- b. Any examination must be done by an objective, unbiased group. Perhaps a cooperative effort of OSD with GAO could prove useful.
- c. Any review of DCAS must take a "hard look" at the quality assurance function to determine its effectiveness. Also, consideration should be given to DLA cooperation and coordination with the services in this important function.
- d. The regional structure should be examined considering the current and future computer environment. As computer "state-of-art" progresses, the regions may become less valuable.
- e. An examination of DCAS structure should also consider the benefits and costs of maximizing the collocation of DCAS and Defense Contract Audit Agency field personnel to enhance coordination of their functions.

Comments From the Department of Defense



ACQUISITION AND
LOGISTICS

LM/SD

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

29 JAN 1986

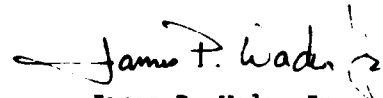
Mr. Frank C. Conahan
Director, National Security
and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense response to the General Accounting Office (GAO) draft report, "Management of the Defense Logistics Agency--Progress and Challenges," dated November 14, 1985 (GAO Code 390010, OSD Case 6882).

The DoD concurs with the GAO report. Comments received from the Services, DLA, and OSD staff offices have been used in preparing the enclosed detailed responses to the findings and recommendations contained in the draft report.

Sincerely,


James P. Wade, Jr.

Enclosure

(GAO CODE 390010) - OSD CASE 6882

"MANAGEMENT OF THE DEFENSE LOGISTICS AGENCY--
PROGRESS AND CHALLENGES"

DEPARTMENT OF DEFENSE COMMENTS
* * * *

FINDINGS

FINDING A: Development Of A Strategic Planning Process. GAO reported that in October 1983, the Office of the Secretary of Defense (OSD) issued a long-range logistics plan, which contained planning guidance and objectives, and indicated that each Service and the Defense Logistics Agency (DLA) were expected to have compatible plans. GAO noted that the first DLA plan was issued in March 1984, and included a list of long-range plans, a framework for a planning process, a strategic planning process, and strategic planning objectives. During its review, however, GAO found that the strategic planning process was not fully implemented because it was not required on a continuing basis or linked to the Management By Objective (MBO) program. GAO, during meetings with the Director, DLA, emphasized the importance of a strategic planning process and encouraged its further development. As a result, in May 1985, DLA published a long-range strategic plan, which contained strategic planning objectives and corresponding long-range objectives. In addition, GAO found that DLA issued a regulation on strategic planning in June 1985, which institutionalized the planning process by establishing policy and assigning planning responsibilities to offices and activities. GAO commended DLA's efforts to institutionalize its long-range planning and concluded that the long-range strategic plan developed by DLA should be a valuable addition to DLA's management tools, should guide managers towards common objectives and should help provide a direct link to the logistics plans of DoD and the Services, as well as DLA's MBO program. GAO further concluded that continuous top-level management attention and emphasis on MBOs is necessary to keep this program active and effective. (pp. 15-19, GAO Draft Report)

DoD Position. Concur. Note that the following actions have been taken by DLA:

- a. A Plans Division has been established to provide more centralized direction and increased management attention.
- b. MBO has been established to provide top level visibility of progress of institutionalizing strategic planning.
- c. A conference of Primary Level Field Activity Policy and Plans Directors has been scheduled for February 26-27, 1986, at which strategic planning will be an agenda item.

Now on pp. 24-27.

Now on pp. 27-30.

FINDING B: War And Emergency Preparedness. GAO noted that DLA prepares three types of related war and emergency plans: (1) joint war support plans, (2) basic emergency plans, and (3) mobilization plans. GAO found that detailed mobilization plans now being developed for DLA's field activities have been delayed because DLA wanted to base them on specific requirements from the Services. In August 1984, however, GAO observed that DLA decided to go ahead with its mobilization planning without the data from the Services and by June 1985, various plans had been prepared and others were being worked on. GAO also found that DLA was concerned about war reserve and industrial preparedness shortfalls and believes they need more attention. In this regard, GAO found that the DoD recently acted to improve industrial preparedness planning and to revitalize the defense industrial base responsiveness. The DLA has important planning responsibilities in order to carry out its missions during war and other contingencies, such as planning for mobilization to accommodate increased workload in order to meet wartime demands. GAO, however, concluded that these mobilization plans have not been completed at major field activities. (pp. 20-24, GAO Draft Report)

DoD Position: Concur. Note that:

a. Revised Army requirements have been received and were promulgated to the DLA field activities on October 14, 1985. The DLA Mobilization Plan and field level supporting plans will be supplemented to reflect these new factors. The plans were tested during Exercise Port Call 86 and reports proved favorable. Refinement efforts will be continued.

b. War reserve problems and deficiencies are currently receiving more attention.

c. DoD participated with DLA and various defense contractors in an Industrial Preparedness Exercise termed Petite Port Call prior to and during JCS Exercise Port Call 86. Lessons learned were extensive as to contractors' present and expansion capabilities. The OSD continues to work actively with DLA in this critical area.

FINDING C: DLA's Plan For Modernizing Its Automated Information Resources. Because of the size and nature of its activities, DLA is highly dependent on automated information systems to accomplish its most critical missions. However, GAO found that the automated systems supporting the major missions of support, contract administration and property disposal are old, cumbersome to operate and difficult to modify in order to meet changing and increasing agency requirements. Difficult and untimely maintenance, unreliable data and limited computer capacity were problems cited. GAO further found that DLA is modernizing many of its automated systems and plans a large procurement of automatic data processing (ADP) hardware, which involves

Now on pp. 31-33.

replacing existing computer hardware at 24 computer facilities, modernizing the major software systems at these sites, expanding its telecommunications network and modernizing the Automated Digital Network. GAO concluded that effective management of the modernization of DLA's critical ADP resources can be enhanced with the establishment of a long-range plan for automated information resources. (pp. 24-27, GAO Draft Report)

DoD Position. Concur.

a. A long-range plan for automated information resources has been established.

b. In response to a need to develop a plan that would guide the modernization of DLA's logistics systems, a task group was established to design the Information Systems Management Plan (ISMP). The plan would have to recognize the functional objectives and requirements, prioritize the requirements, establish ADPE/T architecture strategies, and define the methodology for execution planning and management. The task group met in April 1985, to develop the plan outline and to assign action officers to portions of the plan for development.

c. The first draft of the ISMP was published and distributed for comment in June 1985. Based on the comments, the ISMP was revised and republished in July 1985. The July 1985 ISMP addressed: the May 1985 DLA Strategic Integrated Logistics Plan, logistics systems functional requirements data, an integrated priority list of projects, ADPE/T architecture concepts, acquisition strategies, transition strategies, and information system development/deployment strategies. The July 1985 ISMP was staffed with the DLA Principal Staff Elements and is currently being revised to incorporate their comments. The plan is scheduled to be revised and distributed in March 1986.

d. The ISMP was developed as a flexible, living document that will be revised on a continuous basis as the environment and technology change. Procedures are being developed which will institutionalize the ADPE/T planning process.

FINDING D: Staff Planning Receives Added Emphasis. GAO found that DLA did not have an adequate agencywide staff-needs planning program and, although DLA's MBO program included various objectives and goals on personnel issues, it did not include an objective to cover a staff-needs planning process. GAO further found that the need for a DLA agencywide staff-needs planning program was demonstrated in mid-1984, when the new Director requested profile information on contract personnel in the supply centers and contract personnel in the Defense Contract Administration Services (DCAS) offices. In this case, GAO observed that the DLA field activities were requested to provide information in addition to that in the DLA personnel data bank, and the personnel had to gather the information quickly and often had to compile it manually. In turn, headquarters officials had

Now on pp. 33-35.

to summarize the field information. According to GAO, this case demonstrated that if an effective agencywide planning program had been in place, the requested information would have been more readily available to the Director. In addition, GAO found that since mid-1984, DLA has issued more specific guidance on strategies for filling vacancies in a more timely manner and on better ways to identify sources for satisfying staff needs. GAO concluded that DLA's top management is appropriately concerned with the way staff-needs planning is performed and the need for improved control and guidance in this area. GAO also concluded, however, that additional attention should be paid to specifying data collection methods and procedures, the timing and nature of the plans, and how the staff-needs planning should fit into the MBO program. GAO further concluded that management should have visibility of the condition of the workforce and be able to measure the progress toward filling the gaps in such areas as training and experience. (pp. iii, 27-30, GAO Draft Report)

DoD Position. Concur. This finding is related to Finding H "DLA's Workforce Excellence and Personnel Resources". The response to Finding H covers the training aspects. The response to this finding discusses the staffing management process. Since the initiation of the GAO Survey the following actions have been taken:

a. DLA's Primary Level Field Activities (PLFAs) were required to develop and submit staffing plans for FY 84 and FY 85. The FY 85 staffing plans follow a prescribed systematic format to address anticipated recruitment needs for every occupation, series and grade, as well as a comprehensive breakdown of specific recruitment sources to be used. This will be required at least annually.

b. Standard definitions for the terms "gains" and "losses" were published, including the identification of specific actions comprising each term.

c. Developed the ability to access the Automated Civilian Personnel Data Bank (ACPDB) to show statistics regarding actual gains and losses for each PLFA, the sources used to acquire the employees, and the various categories of employee movement. Statistics for a 1-year period have been provided to all field activities with analysis and establishment of staffing goals aimed at achieving more economic and productive staffing activities. Similar information was and will continue to be developed covering each major occupation by field activity and DLA total.

d. Developed standard exit interview format and questionnaires, presently in use. Statistics gathered regarding causes of voluntary losses will be analyzed (occupations, PLFA, and DLA total) to serve as a base for development of remedial action to reduce employee losses.

e. Apprised all of the Headquarters DLA Principal staff elements (PSEs) that data on profile information and the related types of reports are available from the ACPDB.

f. Informed the PSEs that if the data is available from the ACPDB, data calls should not be made to the PLFAs.

g. Developed a quarterly report on workforce profile information for all the critical DLA occupational series. Copies of this report have been distributed to DLA's PSEs and PLFAs for their internal management use.

These improvements to the staffing management process have passed the planning stage and have become part of the operations. To keep top DLA management informed regarding the performance of these efforts, the DLA is in the process of incorporating these in the MBO Program. This MBO item will be developed by the end of January 1986.

FINDING E: DLA's Budget Formulation Process Can Be Improved.

GAO noted that DLA has two separate budget formulation processes:

(1) the operation and maintenance budget, which amounted to \$1.5 billion for FY 1984, and (2) the stock fund budget, which amounted to \$15 billion for FY 1984. In formulating its operation and maintenance budget, GAO found that DLA used efficiency rate goals to adjust performance standards downward to account for such factors as new work procedures, new legislative requirements, excessive personnel turnover, and inadequately trained staff. With respect to estimates of needs used to formulate the stock fund budget, GAO found that DLA often lacked Service data on weapon system criticality and parts essentiality for many of the items used on weapon systems. The GAO noted that the lack of information on many of the items managed under a priority support program could result in supply support provided and budgeted for at higher or lower levels than necessary, creating uncertainty over the stockage levels needed. GAO concluded that the process for formulating operation and maintenance budgets and stock fund budgets could be improved through the use of systematic, up-to-date, and comprehensive data on DLA's workforce characteristics affecting expectations of how well the workforce will perform. GAO further concluded that improvement in budget formulation could result from additional management emphasis on determining appropriate supply levels and budgets for weapon system spare parts. (pp. 30-33, GAO Draft Report)

DoD Position. Concur. It should be noted, however, that DLA's budget formulation efforts are among the most innovative and efficient in the Defense Department and the Executive Branch. In formulating DLA's operations budget, actual experience is the basis for all projections. DLA projects into the budget year those same work force characteristics that have been experienced. Then, if actual work force characteristics change during the year of execution, adjustments are made. The procedures, however, are

Now on pp. 35-37.

not followed blindly, as first line DLA managers have flexibility to accommodate their activities' unique requirements and workloads. In pursuing the improvements that the GAO concludes are possible, therefore, the DoD must assess whether the costs of the improvements would be offset with added reliability. It would not be prudent, for example, for the DLA (or any DoD component) to expend as much as 90 percent of its current budget formulation resources to achieve an extra 10 percent reliability.

Regarding the stock fund budget, additional management emphasis is underway for determining appropriate supply levels and budgets for weapons systems spare parts. A DoD Supply Management Policy Group has been established. This group is comprised of representatives from OSD, DLA and the Services.

FINDING F: Intensified Management Of Weapon System Parts Is Needed. GAO observed that overall, DLA is performing its weapon system support operations at relatively high levels and according to OSD logistics officials and supply managers for Army, Navy, and Air Force weapon systems, DLA is performing well in providing supply support to the Services for weapon systems. GAO found, however, that although DLA's overall record is one of success, its' management of the Weapon System Support Program is constrained because DLA does not have all the information it needs from the Services on the criticality of systems and essentiality of items. GAO noted that DLA depends on the Services to identify the DLA managed items used on the systems designated for intensive management and, once the items are identified, DLA works with the Services to have essentiality codes assigned to the weapon system items. However, GAO further found that when essentiality codes are not assigned, DLA assumes these items are essential and tries to provide the highest level of supply support. GAO noted that the Services have implemented programs to provide DLA with more complete weapon system coding. GAO also found that DoD is not managing its supply inventory investments by relating supply availability levels to weapon system operational availability rates and, although progress has been made in developing this methodology, the effort has not provided a basis for determining the optimum inventory costs necessary to maximize the availability of combat systems. As a result, neither OSD nor DLA can precisely forecast the levels of stock fund investment necessary to achieve desired system availability. GAO concluded that DLA and the Services are funding parts supply availability at different levels, which could result in DLA's inventory investment being more or less than needed to adequately support the Services. GAO further concluded that OSD needs to scrutinize the process for designating systems and coding items to ensure that the program is efficiently and economically achieving its intended effect, and that program cost is appropriate to the Services' goals for the availability of their weapon systems. (pp. vi, 35-41, GAO Draft Report)

Now on pp. 4, 41-45.

DoD Position. Concur. DLA is actively involved in a major effort to implement the weapon system management concept approved by the Secretary of Defense in July 1985. The concept provides a wide range of enhanced weapon system management capabilities, including the interservice exchange of essentiality data that GAO indicates is not currently available to DLA in all cases. One of the objectives of the concept is to provide the capability to compute requirements to achieve operational availability goals. The DLA plan for implementing the DoD concept is scheduled to be completed by January 31, 1986. Actual implementation of some portions of the concept will be in the near term, i.e. before 1990. Full implementation of the weapon system management capabilities will not be possible until beyond the year 2000. Target dates vary significantly by DoD component.

FINDING G: DLA's Productivity Management Program. GAO observed that DLA has a comprehensive productivity improvement program, which includes development and implementation of objective measures of operational performance, and that DLA management supports employee groups involved in improving performance. GAO found, however, that opportunities exist to improve data collection and identify and use more measures of quality, timeliness and efficiency of operational performance through the use of available productivity information, agencywide communication of productivity improvement opportunities, and managerial accountability for productivity improvement. Using data from DLA's measurement system to compute historical workforce productivity trends for FY 1980 through 1984, GAO determined that productivity rose steadily during the period 1980-1983, but declined during 1984. GAO further found that many of DLA's other operational performance measures showed improvement in certain other supply indicators, such as modernizing and automating the depots, increasing the number of small items in the work counts, and rescheduling the work shift. GAO concluded that DLA's productivity program already meets some of the Administration's proposed requirements for an effective improvement effort, including a focal point for the program effort, top management support, quantitative goals for improvement and an active employee involvement program at many of its field activities. GAO further concluded that DLA's 4-year overall productivity growth rate is slightly higher than the trend necessary to achieve the Presidential goal for improvement by 1992. (pp. v, 41-54, GAO Draft Report)

Now on pp. 3, 4, 45-58.

DoD Position. Concur. The DoD agrees that there is room for some improvement in the DLA programs, as is true for productivity management programs generally. As the GAO recognized, however, the DLA has effective programs that should meet the President's goal. In this regard, the 1984 declines noted by the GAO generally were a function of dedicating additional personnel to implement the Secretary of Defense's acquisition management reforms, not to problems with productivity programs. The DoD, therefore, in pursuing the improvements the GAO concluded are

possible, must assess the potential costs and benefits of actually implementing the improvements.

Productive improvements within the DLA resourcing process have been institutionalized. Where engineered standards are used, productivity improvements are identified through efficiency reviews which are built on quality work methods and procedures. In addition, DLA's performance standards process includes a deviation process with built in procedures to set forth more efficient work methods.

Several additional initiatives have been introduced.

a. Projects are underway to increase the automation of data reporting in depot operations, contract payment and quality assurance functions. similar projects will be instituted in other programs.

b. Internal control and review procedures in DLA will be instituted to audit data collection and reporting, especially in areas not amenable to full automation.

c. Procedures for the DLA Productivity Improvement Program have been revised to encourage timely and complete reporting of meaningful productivity improvements for DLA-wide dissemination. Revised procedures are now being tested and will be carefully evaluated to ensure their effectiveness.

The proposed DLA regulation covering performance appraisal for Performance Management and Recording Systems (PMRS) employees contains provisions to include in performance plans as appropriate, such items as MBOs, organizational goals, and productivity improvement. When it is approved by OPM, the regulation will become DLA stated policy. Similar provisions will be incorporated in the DLA regulation covering performance appraisal for non-PMRS employees when OPM issues its final regulations on the subject.

The policy for military fitness reports is under the cognizance of each of the Services. DLA implements the military service policy.

FINDING H: DLA's Workforce Excellence And Personnel Concerns. GAO reported that DLA managers have identified key occupations in which both recruiting and retention of employees are problems that need to be addressed. According to the GAO, the degree to which personnel recruiting and retention are problems vary by such factors as location and occupation. For example, in Los Angeles, California, and Dayton, Ohio, occupations such as engineers, quality assurance and computer specialists, and contracting personnel, were among those occupations in which DLA has recruitment and retention problems. Regarding workforce and staff needs planning, GAO found that assessment of the full extent and trend of these problems was difficult because DLA has

Now on pp. 58-60.

not regularly and systematically reported personnel turnover and other data by occupations. GAO noted, however, that some of the factors contributing to the recruiting and retention problems identified are outside DLA's control (i.e., pay scales, classification standards, downgradings from classification reviews, and the state of the labor market.) In regard to training, GAO further found that DLA did not meet its training goal of having 90 percent of its personnel trained in high priority areas by September 1984, due to the lack of the training slots in Service schools, inadequate travel funds, cancelled courses, employee turnover, and competing priorities between work and training. GAO observed that in both staffing and training problem areas, DLA is taking a number of corrective actions. GAO concluded that a more systematic data collection and analysis of personnel turnover and related data will be necessary to help appropriately set recruiting and retention goals, track managers' performance, and plan for staffing needs. GAO also concluded that DLA should continue its training initiatives, which will require a data base and a related reporting scheme as part of DLA's ADP modernization program. (pp. iii, 55-58, GAO Draft Report)

DoD Position. Concur. This finding is related to Finding D "Staff Planning Receives Added Emphasis." The response to Finding D covers the Staffing Management Process. The response to this finding discusses the actions taken to achieve training goals.

Since the initiation of the GAO Survey, DLA has:

a. Reduced the rate of service school cancellations. This was accomplished by raising the approval level to the Primary Level Field Activity (PLFA) Commander level. This has resulted in reducing the cancellation rate from a historical 20-25% to 2% for FY 85.

b. Contracted out for training. In FY 85, DLA contracted out with a private sector contractor and the Army Logistics Management Center (ALMC), Fort Lee, Virginia. Approximately 2,000 employees were trained in mandatory acquisition courses at 12 DLA field activities. This helped reduce the training backlog significantly.

c. Participated in ALMC's satellite training initiative. This encompasses: one-way video to receiving sites, electronic blackboard, and video tapes. Courses presented in this mode included the Basic and Advance Procurement courses. This approach has been extremely cost effective since it eliminates need for travel to attend resident courses.

d. Participated actively in identifying local universities which can be certified by the Federal Acquisition Institute (FAI) to teach procurement courses. This should reduce dependence upon service school quotas and allocations.

e. Actively implemented a training management information system (MIS) to track training needs. This MIS will be used in the interim until the Automated Payroll, Cost and Personnel System (APCAPS) training subsystem is implemented.

FINDING I: Direction Of DLA's Information Resources. GAO noted that at the start of its review, it was concerned about DLA implementing a massive modernization of its information systems, requiring a large investment, without organization and other controls in place to provide reasonable assurance of achieving an effective and efficient ADP modernization. GAO reported that it briefed DLA on the lack of a strong central management control over the ADP and telecommunications areas, weaknesses in the ADP policies and regulations, and other agency management weaknesses identified in its report, GAO/NSIAD-85-148 "Progress in central focus and control over the ADP modernization program and resources. In addition, GAO found that DLA plans to contract for increase central management control over ADP assets. GAO concluded that DLA needs to maintain management emphasis on evaluating ADP policy and regulations to clarify roles, responsibilities and procedures for managing ADP resources. (pp. iii, 59-63, GAO Draft Report)

Now on pp. 2, 3, 63-65.

DoD Position: Concur. DLA has contracted with Advanced Technology Inc. (ATI) to provide an Information Resources Management (IRM) Evaluation Report and an overall IRM plan. The contract was awarded in August 1985, and will run through March 1986. Issues of organization and control of information resources, as well as a draft plan on the future direction of IRM within DLA, will be addressed, with recommendations, in this overall plan. It will be integrated with the DLA strategic objectives and will provide top-level planning direction for the development of the Information Systems Management Plan (ISMP), which is established as the next level of information planning. The top-level IRM "umbrella" policy regulation is currently being developed and staffed in conjunction with the direction to be set up by the IRM plan being provided by ATI. The regulation should be completed and issued no later than April 30, 1986.

FINDING J: DLA's Need For An Internal Audit Capability. GAO noted that DLA does not have its own agency wide internal audit organization reporting to the Director. The GAO reported that in many cases, the services provided first by the Defense Audit Service and subsequently by the DoD Inspector General have been less than adequate to assure DLA management the agency is operating efficiently, or could respond as quickly as possible to problem areas needing immediate attention. According to GAO, in discussing DLA's lack of internal audit coverage with DoD Inspector General Officials, the officials acknowledged that (1) the policy has been to use most audit resources on large interservice self-initiated audits, and (2) this policy may have had an adverse impact on DLA's audit requests, primarily because DLA's requests did not meet the criteria to receive a priority

Now on pp. 65-67.

high enough to be included in the audit plan. GAO found that the DoD Directive 7600.2 dated January 10, 1985, written by the DoD Inspector General, authorized DLA to have an internal audit capability at its headquarters. GAO concluded that, now a DoD Directive authorizing DLA to have an internal audit capability has been issued, the DLA Director is in a position to decide if his priorities warrant the application of resources to that capability. GAO also concluded that if this capability is set up, the Director should ensure that the organization is independent of other operating activities and is staffed by well-qualified professionals. (pp. iv, 63-65 GAO, Draft Report)

DoD Position: Concur. The DLA has recently established an internal review organization that is independent of other operating activities and reports directly to the field commanders or to the Director as appropriate. DLA now has the resources and the talent to conduct any audits that are required due to shortfalls in the IG coverage.

At the time of the GAO review, DLA did not have a quick reaction capability to perform inspections not coverable by the IG. Since that time a small inspection office has been established and DLA now has coverage in this area as well.

Thus, between the DoD IG and internal reviews, the DLA now has sufficient coverage for both audits and inspections.

FINDING K: DLA's Accounting Inaccuracies And Related Control Problems. GAO reported that the magnitude of the problems DLA contract administration activities have in accurately accounting for and reporting contract transactions is not fully known. GAO further reported that, for many years, the DCASRs have been experiencing problems in recording and accurately reporting financial data to the Services and other DCAS customers, as well as in making accurate payments on the contracts. GAO found that a variety of data accuracy problems had previously been reported in various audit reports, including incorrect appropriation references, disbursements charged to incorrect appropriations and incorrect contract obligation amounts. GAO concluded that there is concern about the significant personnel resources needed to research and correct inaccurate data reported by the DCASRs, and about data accuracy and erroneous payments. (pp. 68-69, GAO Draft Report)

Now on pp. 68.

DoD Position: Concur. The majority of errors seem to occur at the time the contracts and modifications are initially entered manually into the data base. The solution to this problem is the expansion of Military Standard Contract Administration Procedures (MILSCAP), which is discussed in the response to Finding L.

DLA has initiated a redesign effort of the Mechanization of Contract Administration Services (MOCAS) to fully automate the payment process and, thereby, eliminate the problem of disbursing against the wrong appropriation. This redesign effort is currently scheduled to be completed by September 1988.

FINDING L: Manual Entry Of Data And Disbursement Process. GAO found that a large portion of the contract data under the DLA automated contract administration system had to be entered manually, which increased the chance of errors. The GAO further found that the Military Standard Contract Administration Procedures (MILSCAP), which was intended to enhance contract administration through automation (1) had not been fully implemented by DoD procuring activities or the DLA supply centers, (2) were originally scheduled to be fully implemented by July 1970, but were made optional in 1975, because of agencies limited automated capabilities, and (3) were in use in only Army and some Air Force activities--the Navy was still in the testing stage at several of its activities and DLA supply centers were using MILSCAP abstracting for contracts, but not abstracting contract modification data. GAO also found that during the contract disbursement process, approximately 52 percent of all invoices were handled or reviewed manually to process payments and record the payment data in the automated system. GAO noted that a modernization effort was underway to redesign the system, which would increase the rate of automated payments to about 90 percent. GAO concluded that because MILSCAP has not been fully implemented in DoD and the contract disbursement process was also labor intensive, DCASR must abstract and manually enter a large portion of the data into the automated system, thereby increasing the chance of human errors. (pp. iii, 69-71, GAO Draft Report)

Now on pp. 68-70.

DoD Position: Concur. Complete automation using the procedures prescribed by MILSCAP has not been fully achieved. Implementation of MILSCAP continues to be linked to the rate of automation in the areas of contract administration, procurement and financial management. The problem remains not with MILSCAP per se, but the failure to develop modern automated systems which can effectively generate and use MILSCAP data. While DoD is encouraging more rapid development of modern systems that make it possible to phase the use of MILSCAP, full implementation remains tied to systems modernization programs that move slowly. DoD is pursuing an effort to speed up and facilitate the interchange of MILSCAP data. A prototype improved MILSCAP test should be ready by first quarter FY 87.

However, the automation process has been expanded since MILSCAP was made optional in 1975. The MOCAS system has been redesigned to produce abstracts for modifications issued by the Administrative Contracting Officers and there are efforts underway to produce Revised Delivery Forecasts and additional Contract Payment Notices.

There are other initiatives that are being taken to improve the automation process between the Defense Contract Administration Services Regions (DCASRs) and the Military Services. For example, testing is being accomplished with the Air Force Systems Command and the DCASRs on using computer-to-computer exchange of MILSCAP data in lieu of AUTODIN.

With the gradual expansion of MILSCAP procedures and the redesign effort of MOCAS, the errors associated with manually entering the data into the data base should be reduced dramatically, or even eliminated.

FINDING M: Personnel Turnover And Nonstandard Contract Forms Further Complicate Data Entry. The GAO reported that because of the heavy manual processing of financial data on assigned contracts, a significant level of personnel turnover can degrade the process. In this regard, GAO found that the DCASRs were experiencing difficulties in maintaining a stable workforce processing personnel, which results in a higher potential for entry of erroneous data into the automated system. GAO also found that the process used by DCASR personnel to abstract and manually enter such large amounts of contract financial data into the automated system is also complicated by the Service procuring activities, which use a number of different contract forms. For example, at the Philadelphia DCASR, GAO found that data entry clerks must search for standard contract clauses in at least 10 different types of forms. GAO concluded that, to the extent DLA's ongoing redesign of financial systems reduces the amount of manual data processing, some of the problems currently experienced may be alleviated. (pp. iii-iv, 71-72 and 78, GAO Draft Report)

DoD Position: Concur. The DCASRs continually have had a problem with maintaining a stable workforce in the data entry area. The DCASRs recently reorganized into cells, which should help in stabilizing the workforce. Under the reorganization, clerical entry personnel will have a chance to advance within the "cell." Although the turnover of data entry personnel will continue, personnel will be staying within the organization and their expertise will not be lost. The different contract formats continue to be a problem, especially when there is a lack of experience in the workforce. Expanding the use of MILSCAP, as discussed in the response to Finding L, should resolve this problem.

FINDING N: Problems In Accurately Recording And Reporting Contracts Administered. GAO observed that some of the problems cited in audit reports since 1979, still existed. GAO found problems with contingent liability record data, which included (1) incorrect accounting classification reference numbers, (2) incorrect disbursement charges, and (3) errors in contract obligation amounts and overstated unliquidated obligations (ULOs)--resulting in erroneous payments to contractors. GAO noted that incomplete, inaccurate, or otherwise erroneous contract transaction data can hinder an activity's ability to control and report on the status of appropriated funds. GAO also found that funding activities are having a variety of problems with DCASR data reports, such as wrong appropriation cites, missing payment data, incorrect dollar amounts, untimely data and erroneous payments, which ultimately caused rejections for contract payment notices. GAO was informed that a reason for

Now on pp. 70, 71.

Now on pp. 71-77.

incomplete contract payment notices was that the notices do not contain all the line-item disbursement information required under MILSCAP. GAO further found that the controls on duplicate payments were inadequate, and negative ULO balances continue because controls can be overridden and the process for reconciling negative ULOs is not emphasized. GAO concluded that the DLA Director's new emphasis on the quality of work will need to address the accounting accuracy problems. (pp. iii-iv, 72-78, GAO Draft Report)

DoD Position: Concur. As discussed in responses to Findings K, L, and M, the problems can generally be traced to the manual intervention required to enter data into the system. The automation efforts that are underway should eliminate many of the current problems.

DLA issued a letter to the DCASRs on September 17, 1985, advising them of the potential for duplicate payments and interim actions that can be taken to reduce this potential.

DLA also prepared a letter that addresses the negative ULO balances and established a quarterly report to track progress in this area. The letter was issued on January 13, 1985.

FINDING O: Financial And Other Management Controls Over Materials. GAO cited problem areas that have been identified in DLA's ability to effectively and economically control materials in support of the Services, including (1) old and potentially invalid obligations, (2) controls over receipts of materials and (3) inventory record accuracy. GAO noted that at the end of FY 1984, DLA reported a \$5.9 billion ULO balance, which represented items ordered from contractors but not yet received. GAO found, however, that studies and audits indicate the \$5.9 billion is inaccurate. According to GAO, the accuracy of the reported ULO balances plays a role in DLA's supply and budget functions, and inaccuracies may result in procurement of more or less items than needed and can affect resources requested for materials needed by the Services. GAO reported that DLA has recognized inaccurate ULO balances as a DLA-wide problem and is giving top management attention to this issue. For example, in 1985, DLA established supply center goals for reducing overaged ULO balances and required each supply center to identify the resources needed to review and resolve the current overaged obligations. In addition, GAO found that DLA recorded losses of about \$23 million in FY 1984, for materials paid for but no evidence of receipt, and another \$53 million of paid-for materials were more than 90 days past delivery-due dates as of November 1984. GAO observed that some corrective actions have been initiated by DLA to improve controls over intransit materials, and that the intransit balance for materials due over 90 days was reduced to \$44 million as of March 1985. GAO noted the DLA Director had stated that there appeared to be too little emphasis on reducing intransits from procurements and that additional actions were needed to resolve this problem. In regard to the problem of inventory

Now on pp. 3, 77-82.

record accuracy, GAO cited its November 1985 audit report, "Navy's Progress In Improving Physical Inventory Controls And The Magnitude, Causes, And Impact Of Inventory Record Inaccuracies In The Army, Air Force, And Defense Logistics Agency," dated November 4, 1983, (OSD Case 6273), which found that acceptable levels of inventory record accuracy were not being achieved at DLA activities, because the basic reasons for recurring errors were generally not being identified or corrective actions taken. GAO noted that at the conclusion of its review in February 1985, DLA had acted to implement all of the recommendations contained in the 1983 report. GAO concluded that DLA management has taken positive steps to resolve the materials control problems, but these problem areas will need continuous management attention. (pp. iii-iv, 79-85, GAO Draft Report)

DoD Position: Concur. Since the audit, undelivered orders and overaged accounts payable have been identified as the major reasons for overaged unliquidated obligations (ULO). Efforts have been increased to exclude contractors with chronically poor delivery records from the contracting process, and to impose sanctions on late delivery. A DLA task group has been established to make recommendations for reducing overaged accounts payable. As the audit report indicates, corrective actions to improve control over intransit material have been initiated. Adequate controls should now exist in all commodities except subsistence. Improvements in this area, including automating intransit review, are underway and should be in effect by October 1987. DLA has implemented all recommendations to improve inventory accuracy, and will continue to direct management attention to the problem.

FINDING P: Controls Over Parts Entering The Supply System And Deletions Of Unneeded Items. GAO noted that DLA employs various management controls and systems to assist managers in controlling inventory assets. GAO, however, found that the parts control program and the inactive item program were not functioning as intended. GAO observed that the parts control program is intended to promote the use of standard parts and prevent unnecessary items from entering the supply system, while the inactive item program helps to eliminate unneeded items from the supply system. According to GAO, both programs offer the potential to lower supply costs by minimizing DLA's inventory investments. In this regard, GAO found that OSD recognized these programs were not functioning as intended and acted to correct many of the shortcomings, such as a large portion of DLA's parts recommendations not being accepted by the Services and the inactive items program not assuring items are effectively reviewed for retention/deletion decisions. GAO concluded that (1) although DoD has directed the correction of deficiencies in Service and DLA parts control programs, the Secretary of Defense should closely monitor the Service and DLA efforts to assure the deficiencies are corrected, (2) DLA should establish goals for its contributions to the program, and (3) the Director should periodically review DLA's program operating results. GAO also

Now on pp. 83-90.

concluded that the Services should correct the problems with their automated systems and develop the capability to effectively evaluate inactive items for retention or deletion from the inventory. (pp. iii-iv, 86-94, GAO Draft Report)

DoD Position: Concur. Significant progress has been made during the past year.

Revisions to the Defense Inactive Item Program (DIIP) procedures manual, DoD 4140.32-M have been drafted and forwarded to the Military Services, DLA activities, and the GSA for coordination/comment.

a. DIIP System Changes have been implemented in DLA, GSA, Air Force, and Marine Corps. Army and Navy implementation is not yet complete.

b. Additional DLA systems refinements are scheduled for implementation in the 4th quarter, FY 86.

c. DIIP reporting requirements have been revised to more specifically reflect the actions accomplished during the DIIP cycle.

d. The DIIP cycle for 84/85 has been completed and a report is being prepared.

e. A DIIP Audit Surveillance Schedule has been established for CY 86/87 by the DIIP Administrator, for visits to the Military Services, DLA and GSA to determine the depth of mechanization of the DIIP policy.

DoD Instruction 4120.19, DoD Parts Control Program, revised October 30, 1985, required that the Military Program Managers provide feedback to the Military Parts Control Advisory Groups (MPCAGs) on the implementation of their parts control evaluation recommendations.

MIL-STD-965A (approval expected shortly) directs the weapon system/equipment contractor to implement the MPCAG's recommendations unless written instructions to the contrary are provided by the Military Program Manager.

DLA has established a review capability in the Defense Contract Administration Services to review the lists of items used in weapon systems/equipment production and assure that only parts approved under the DoD Parts Control Program are used in new designs.

DLA will identify cost avoidance as "potential" prior to acceptance of MPCAG recommendations by the Military Program Manager.

Now on pp. 90-92.

FINDING Q: Controls On ADP Costs And Measurement Of Computer Performance. GAO found that the accounting system did not fully capture and only partially allocated the costs of modernizing and operating computer systems, and did not provide the sufficient detail needed to allocate telecommunication costs to program users. GAO noted that it, in discussing these concerns with DLA, advised that if these management shortfalls went uncorrected, DLA would not be able to conduct a cost-effective and efficient ADP modernization program. GAO reported that in May 1985, DLA briefed it on corrective measures, which included the establishment of a capacity management committee, development of appropriate regulations, development of computer models for installed systems, and system design alternatives and procurement of capacity software tools. GAO reported that DLA also has recruited college graduates and plans to establish a DLA-wide capacity management training program. GAO concluded that DLA's actions to increase central management control and visibility over ADP operations and costs, and to implement a capacity management program are noteworthy. GAO, however, further concluded that continued management emphasis is necessary to ensure the new policy and regulations being formulated in these areas are implemented. (pp. iii, 94-96, GAO Draft Report)

DoD Position: Concur. In early 1983, DLA tasked the Federal Computer Performance and Evaluation Center (FEDSIM) to develop an Agency Capacity Management program. FEDSIM delivered its recommendations to DLA in September 83. DLA had to postpone implementation of FEDSIM's recommendations because of serious ADP/T performance problems occurring at Depots, Centers and DCASRs in late 1983. Largely attributable to DLA's transition to an online, database environment, these problems threatened to impair mission accomplishment and delay scheduled deployments of Automated Information Systems (AISs). Extensive staff oversight was required because of strong Command interest. The DLA Performance Analysis Team (PAT) was established in Depots, Centers and DCASRs in late 1983. Led by DLA-Z and staffed by technicians from DLA's System Automation Center (DSAC) and contractors, the PAT mission was to give on-site performance analysis support to DLFAs and, when required, perform systems training. During 1983-85, the PAT visited more than twelve DLA sites with some visits lasting as long as 3 weeks. DSAC assumed operational responsibility for the PAT in 1985. From that time on, DLA redirected attention to implementing the DLA Capacity Management program, taking corrective actions noted by GAO in this finding.

Since GAO was briefed by DLA on capacity management in May 85, the following corrective actions have been taken:

a. DSAC has acquired capability to model proposed or partially - developed systems, forecast impacts on ADP/T capacity, and estimate costs of design alternatives. With its full complement of trained staff, DSAC can make site - specific

models of new applications within 2 weeks after receipt of workload data. In addition, DLA is procuring ADP capacity management-type software for PLFAs. Software products included in this procurement will give the Agency capability to depict service loads and costs of installed systems by customer.

b. Capacity management is being institutionalized DLA-wide. The DLA Capacity Management Steering Group, the Agency executive-level forum for review of major ADP/T capacity issues, meets monthly to prioritize DSAC modeling projects and review requests for PAT visits and other issues. To encourage field participation in the Capacity Management program, DLA held a Capacity Management Conference in Columbus, OH, in Oct 85, which was attended by the PLFAs. At the conference, PLFAs were briefed on the schedule for program implementation, the draft DLA capacity management regulation, future PLFA responsibilities and the need for additional PLFA staffing. After approval of PLFA staffing, DLA plans to establish PLFA Capacity Management Committees with responsibilities that include liaison with the Headquarters Steering Group, coordination of Service-level agreements, short-term capacity planning and reporting of certain ADP/T capacity information to Central Design Activities.

FINDING R: Audit Followup Procedures And Development Of Audit Evaluation Trend Data. GAO reported that DoD policy and procedures require managers to take corrective actions to implement recommendations made by audit, review and evaluation groups. GAO found, however, that existing DLA procedures do not require selective on-site followup audits to ensure corrective actions on reported deficiencies, as required by DoD Directive 7650.3. In this regard, DLA informed GAO that its Internal Review Division was developing an automated data base, which would include such information as audit findings, complaints, special investigations, and internal control findings. GAO concluded that including summary information from various management reviews and evaluations conducted in such areas as procurement, supply, personnel, contract administration, quality assurance and security, as well as internal review group findings, in a management information system would enhance the prospects for identifying the scope and severity of systemwide management problems. (pp. 96-98, GAO Draft Report)

DoD Position: Concur. DoD agrees that at the time of the audit, existing DLA procedures did not require selective on-site followup audits to ensure corrective actions on reported deficiencies, as required by DoD Directive 7650.3. However, the Director of DLA tasked internal review staffs to ensure corrective actions reported as taken on audit and inspection findings were actually accomplished. The new DLA regulation on followup procedures establishes policy regarding physical verification and plans are under development to implement this program.

Now on pp. 92, 93.

Appendix III
Comments From the Department of Defense

The DoD also agrees that including summary information from various management reviews and evaluations in the existing data base would be beneficial. However, there is concern that expanding the data base to integrate the volume of data generated by the other reviews would not be the most productive use of data storage capability. Also, until more experience and confidence in DLA's ability to keep the data base under control has been established, the DoD is reluctant to expand the data base contents. The DoD IG will evaluate this issue after the DLA gains the necessary experience. (See, also, the response to Recommendation 16.)

RECOMMENDATIONS

RECOMMENDATION 1: GAO recommended that the Secretary of Defense review the progress DLA is making preparing mobilization plans to assure that timely and appropriate requirements data are made available to the DLA by the Services and that the DLA develops necessary plans to effectively transition to supporting wartime missions. (p. 24, GAO Draft Report)

Now on p. 30.

DoD Position: Concur. DLA works closely with OSD, JCS, and the Military Services in preparing mobilization plans. The DLA Mobilization Plan (DLAMP) and field level supporting plans were tested during exercise PORT CALL 86, and reports proved favorable. Refinement efforts are underway to supplement the plans based on workload factors developed from revised Army requirements. These factors were promulgated to DLA field activities in October 1985.

The Department has improved the war reserve requirements data provided to DLA and other Integrated Materiel Managers (IMMs) by revising DoD Instruction 4140.47, Secondary Item War Reserve Requirements Development. The revised instruction, published in February 1984, requires an annual exchange of war reserve data between the Services and the IMM. The data exchange was incorporated into Approved Milstrip Change Letter (AMCL) 42, and was implemented in February 1985. Some problems occurred with the initial exchange, but they have been resolved and should not affect the subsequent submissions.

The Department has requested a DoD IG audit of the Components' efforts to implement DoDI 4140.47. The audit is scheduled to begin in August 1986 and will include a review of the data exchange provisions of the Instruction. Based on the audit findings, the Department will determine the need for additional corrective action in this area.

RECOMMENDATION 2: GAO recommended that the Secretary of Defense review the status and progress of the DLA Weapon System Support Program to assure that the growth in the systems covered is justified, the program is accomplishing its intended purpose of concentrating resources on the highest priority systems and items, and that the cost of the higher levels of supply support is appropriate to the availability of the systems supported. (p. 41, GAO Draft Report)

Now on p. 44.

DoD Position: Concur. As a participant in the Supply Management Policy Group (SMPG) that is coordinating the development of DoD implementation plans for the Secretary of Defense's approved weapon system management concept, DLA's Weapon System Support program is the subject of close OSD review. As the specifics of the DLA implementation plan are defined, they are analyzed in light of the impact on the current Weapon System Support Program. Additionally, the DLA briefings to DoD on the status of its plan ensure effective oversight consistent with this recommendation.

Now on p. 44.

RECOMMENDATION 3: GAO recommended that the Secretary of Defense ensure that the Services provide complete information to the DLA, which would enhance management of weapon system support (criticality of systems and item essentiality). (p. 41, GAO Draft Report)

DoD Position: Concur. The Military Services have initiated aggressive programs to provide DLA the needed information. The Air Force and Marine Corps have recently completed providing the information. The Army and Navy are still in process and are about 50 percent completed. The estimated completion date is the end of December 1986.

DoD is also pursuing a more comprehensive long range solution to this issue as part of the ongoing effort to implement a DoD weapon system management concept. For example, one of the requirements of the Secretary of Defense's approved concept is the development of the automated capability to exchange essentiality and program data on an interservice basis. The Components' plans for implementing the DoD concept will be completed on January 31, 1986, and will provide more specifics on how this enhanced capability will be developed.

Now on p. 75.

RECOMMENDATION 4: GAO recommended that the Secretary of Defense pursue a greater standardization of contract data by mandating the full implementation of military standard contract administration procedures (MILSCAP), or an equivalent system, abstracting and establishing a working group to explore ways to achieve greater uniformity of contract forms. (p. 79, GAO Draft Report)

DoD Position: Concur. Implementation of MILSCAP continues to be linked to the rate of automation in the areas of contract administration, procurement and financial management.

The problem remains not MILSCAP per se, but the failure to develop modern automated systems which can effectively generate and use MILSCAP data. The DoD is encouraging more rapid development of modern systems that make it possible to phase the use of MILSCAP, and will ensure full implementation as soon as the systems modernization programs are completed.

Under the Modernization of the Defense Logistics Standard Systems (MODELS) Program, DoD is examining, with the Defense Logistics Agency and the Military Services, ways to improve electronic data interchange of logistics data. DoD is also pursuing a related effort to speed up and facilitate the interchange of MILSCAP data. An implementation plan for MODELS and a prototype improved MILSCAP test should be ready by first quarter FY 87.

Now on p. 89.

RECOMMENDATION 5: GAO recommended that the Secretary of Defense direct the DLA and the Services to work together to develop the capability to make timely and effective reviews of inactive item candidates. (p. 94, GAO Draft Report)

Now on p. 35.

DoD Position: Concur. A memorandum will be transmitted to the Services and Agencies directing greater management attention and emphasis on the review and elimination of inactive items from the DoD inventory.

RECOMMENDATION 6: GAO recommended that the Director, Defense Logistics Agency incorporate, as part of its MBO for workforce excellence, staff-needs planning concerns such as the need for uniform data collection and methods. (p. 30, GAO Draft Report)

DoD Position: Concur. DLA is in the process of incorporating this matter in the DLA MBO Program. This MBO item will be developed by the end of January 1986.

Now on p. 37.

RECOMMENDATION 7: GAO recommended that the Director, Defense Logistics Agency improve the process and underlying assumptions used in preparing the operations and stock fund budgets by using systematic and comprehensive data on DLA workforce characteristics, and by continuing initiatives discussed in chapter 3 (of the GAO report) to obtain weapon systems spare parts data from the Services. (p. 33, GAO Draft Report)

DoD Response: Concur. The Director, DLA has already begun to improve the process and underlying assumptions in budget formulation. However, DoD notes the findings in the GAO report, which recognize the current precision and detail in DLA budget formulation procedures. The DLA will assess the cost and benefits to ensure that it does not invest more than the expected return on the investment. (See response to finding E.)

It should be noted that efforts are underway to develop a data exchange capability within the overall project to implement the Secretary of Defense's approved weapon system management concept. This project is receiving high level DoD management attention.

Now on p. 58.

RECOMMENDATION 8: GAO recommended that the Director, Defense Logistics Agency continue to emphasize both product and process quality by applying some of the same approaches used in measuring, evaluating, and improving efficiency (i.e., developing objective measures of quality for the major mission areas such as procurement and contract administration, setting goals, and assuring that managers are held accountable). (pp. 54-55, GAO Draft Report)

DoD Position: Concur. DLA continues to emphasize both product and process quality. Actions under way to achieve the objectives of the recommendation include:

a. Productive improvements within the DLA resourcing process.

b. Projects to increase the automation of data reporting in depot operations, contract payment and quality assurance functions.

c. Procedures to audit data collection and reporting, especially in areas not amenable to full automation.

d. Revised procedures to encourage timely and complete reporting of meaningful productivity improvements. (See, also, the response to Findings C, D, G.)

RECOMMENDATION 9: GAO recommended that the Director, Defense Logistics Agency further improve the Agency productivity management program by ensuring that the data in the Labor and Performance Effectiveness Reporting System is accurate and timely. (p. 55, GAO Draft Report)

Now on p. 58.

DoD Position: Concur. The Labor and Production Effectiveness Reporting (LAPER) System is a product of the Automated Payroll, Cost and Personnel System (APCAPS). Data is input to the LAPER by time and attendance cards, labor exception reporting cards (UPCB250B), and workload reporting cards (DLA Form 1005, DIC YHJ). Accuracy of data is dependent on the accuracy of input data.

To minimize the need for labor exception reporting, DLA is taking steps to review and limit the number of cost account codes within a workcenter. Since erroneous or forgotten labor exception reporting is a source of many data errors, limiting the need to exception time should improve data accuracy.

DLA is also in the early stages of creating automated links between major AISS so that workload data can be automatically passed from the operating system to APCAPS. Automated workcounts will minimize the overt and inadvertent errors inherent in manual reporting of workload.

The DLA, however, will have to ensure that its investment in time, effort and manpower to achieve total accuracy and timeliness of LAPER reports will not exceed the anticipated payback. (See, also, the response to Finding G.)

RECOMMENDATION 10: GAO recommended that the Director, Defense Logistics Agency place greater emphasis on the quality of the accounting data produced by the Defense Contract Administration Service Regions by directing them to perform the negative unliquidated obligation (ULO) balance reviews and to conduct tests of the adequacy of controls over payments. (p. 79, GAO Draft Report)

Now on p. 75.

DoD Position: Concur. DLA issued instructions to the Defense Contract Administration Services Regions (DCASRs) on January 13, 1986 directing them to perform negative unliquidated obligation (ULO) balance reviews on a continuing basis. A quarterly report will be required reflecting the number of negative ULOs at the beginning of the quarter, number reviewed and reconciled during the quarter, and the number at the end of the quarter.

DLA has reemphasized to the DCASRs the importance of the Accounting and Finance Quality Control Program in conducting reviews on the adequacy of controls over payments. Additionally, a Financial Systems Evaluation Office at DLA was established in FY 85. Its mission is to conduct an evaluation of each financial management and accounting system operated within DLA to determine the degree of conformity with the principles, standards and related requirements prescribed by the Comptroller General and with the guidelines prescribed by the Office of Management and Budget. As part of their review, tests are conducted using predetermined test decks and predetermined results. These tests will assist in identifying deficiencies in the system that would permit duplicate payments.

RECOMMENDATION 11: GAO recommended that the Director, Defense Logistics Agency assure that Agency internal controls, including managerial accountability, are adequate to control intransit materials. (p. 85, GAO Draft Report)

DoD Position: Concur. DLA will implement new goals by the end of March 1986. Also, an MBO goal will be established by the end of March 1986.

RECOMMENDATION 12: GAO recommended that the Director, Defense Logistics Agency continue to emphasize the need to control overaged ULO balances, identify the underlying problems that lead to the build-up of the large balances, and establish specific goals for acceptable ULO levels for the fuels commodity. (p. 85, GAO Draft Report)

DoD Position: Concur. Since the initiation of the Audit Survey, the reasons for overaged unliquidated obligations (ULOs) have been identified. DLA is concentrating efforts on the reduction of the two major parts of the ULOs, undelivered orders and accounts payable.

In the Contracting area efforts are increasing to terminate or debar chronic poor performers, require significant monetary consideration for delivery extensions and invoke sanctions (suspension of fast pay or removal from automated award systems) against delinquent contractors. In addition, DLA Supply Centers have established lists of continued poor performers, and awards to these contractors must be approved by the DLA Director of Contracting or his Deputy.

During fiscal year 1985, DLA visited each Defense Supply Center (DSC) and the Defense Contract Administration Services Region (DCASR) Boston to determine the causes for the overage accounts payable portion of unliquidated obligations. DLA has found that some overage payables are for undefinitized orders and contracts, where material was accepted but the contractor was not paid because the price had not been definitized.

In December 1985, DLA established a joint DSC/DCASR task group to make recommendations for reducing overage accounts payable. This group also will propose fiscal year 1986 overage payable reduction goals for all commodities, including fuels. Currently, the Subsistence ULOs are not being aged because this capability has not been fully programmed in the Defense Integrated Subsistence Management System (DISMS). Programming to provide aged ULOs and accounts payable is scheduled to be included in DISMS by October 1987.

RECOMMENDATION 13: GAO recommended that the Director, Defense Logistics Agency incorporate, as an MBO, goals on inventory accuracy. (p. 86, GAO Draft Report)

Now on p. 82.

DoD Position: Concur. DLA had such a goal in place for FY 85. An MBO goal for FY 86 is under development and will be completed by the end of March 1986.

RECOMMENDATION 14: GAO recommended that the Director, Defense Logistics Agency establish agency goals such as expected cost savings or proportion of recommendations accepted under the parts Control Program and have these results included as a part of his periodic reviews. (p. 94, GAO Draft Report)

Now on p. 89.

DoD Position: Concur. DLA has issued instructions to each Defense Supply Center at which a Military Parts Control Group (MPCG) resides. The instructions establish a goal of 90 per cent acceptance rate of MPCG recommendations, commencing with the second quarter of FY 1986. The instructions also provide for quarterly reports from the MPCGs.

RECOMMENDATION 15: GAO recommended that the Director, Defense Logistics Agency complete a comprehensive computer capacity and performance evaluation program. (p. 96, GAO Draft Report)

Now on p. 92.

DoD Position: Concur. DLA has taken action to include the goal "Institutionalized Capacity Management on a DLA-Wide Basis" in the DLA Headquarters Management by Objectives Program. The result will be a comprehensive computer capacity and performance evaluation program as recommended by the GAO. Specifically, completion of this goal will result in a top to bottom Headquarters-Field Activity capacity management organizational structure. This MBO goal also mandates completion of a capacity management information system, already initiated with the publication of the DLA Information Systems Performance Report (DISPR) in January 1985. The DISPR already contains ADP utilization data (CPU Busy, Demand Paging per Second, DASD Rate per Second, and data showing CPU resource utilization by workload classification), ADP modeling studies, and PLFA ADP/T costs and workload indicators by fiscal year. When complete, the DISPR will also show PLFA ADP performance data, ADP reliability and availability data, and ADP/T costs required to process standard units of workload (prime and support contracts received, and DLA and non-DLA items shipped and received).

Now on p. 93.

The DLA Director is briefed on the status of MBO goals, including capacity management, on a quarterly basis. The MBO charts are updated quarterly to reflect changes beyond the control of offices of Principal Interest (OPIs).

RECOMMENDATION 16: GAO recommended that the Director, Defense Logistics Agency increase the coverage of the planned automated data system for compiling audit findings to include findings from other review and evaluation groups in the Agency, and issue needed procedures to help assure that actions on audit recommendations are verified. (p. 98, GAO Draft Report)

DoD Position: Partially concur. The DoD agrees that there would be benefits from including summary information from various management reviews and evaluations in the existing data base. The DoD, however, is not sure that the inclusion would be the most productive use of data storage capability. In addition, until DLA has more experience and confidence in its ability to keep the data base under control, it is reluctant to expand on its contents. The DoD IG, therefore, will fully evaluate the merits of this recommendation after DLA gains further experience. This evaluation should be possible no later than January 1988.

END

DTic

5-86